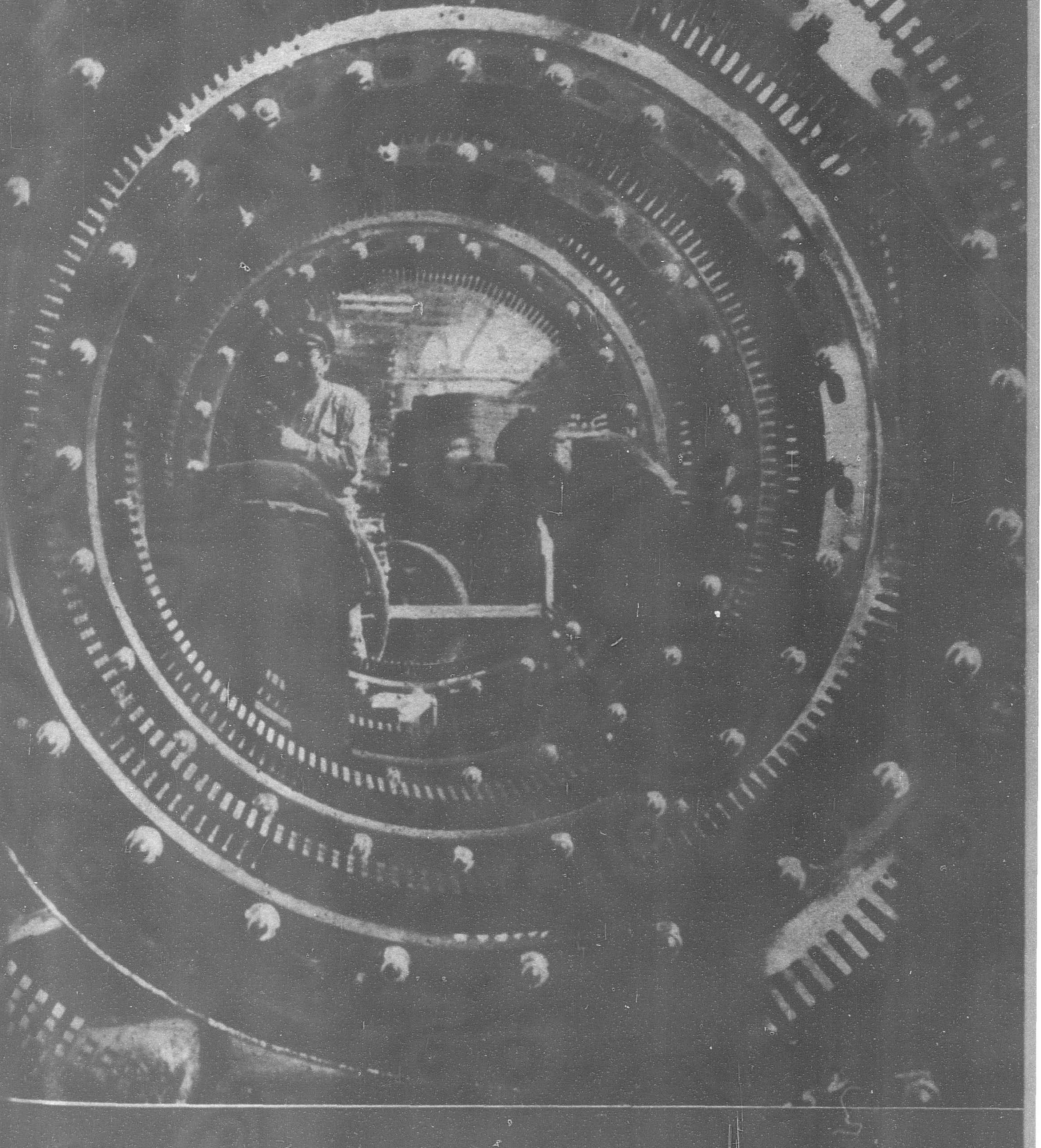
The Far Eastern Review

NGINEERING ◆ FINANCE ◆ COMMERCE



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THE
FAR EASTERN
REVIEW

上海黃浦灘念四號

遠東時報

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FOUNDED, 1904

The Far Eastern Review

ENGINEERING ❖ FINANCE ❖ COMMERCE

THE PIONEER IN ITS FIELD

A Monthly Review of Far Eastern Trade, Finance and Engineering, Dedicated to the Industrial Development and Advancement of Trade in Far Eastern Countries.

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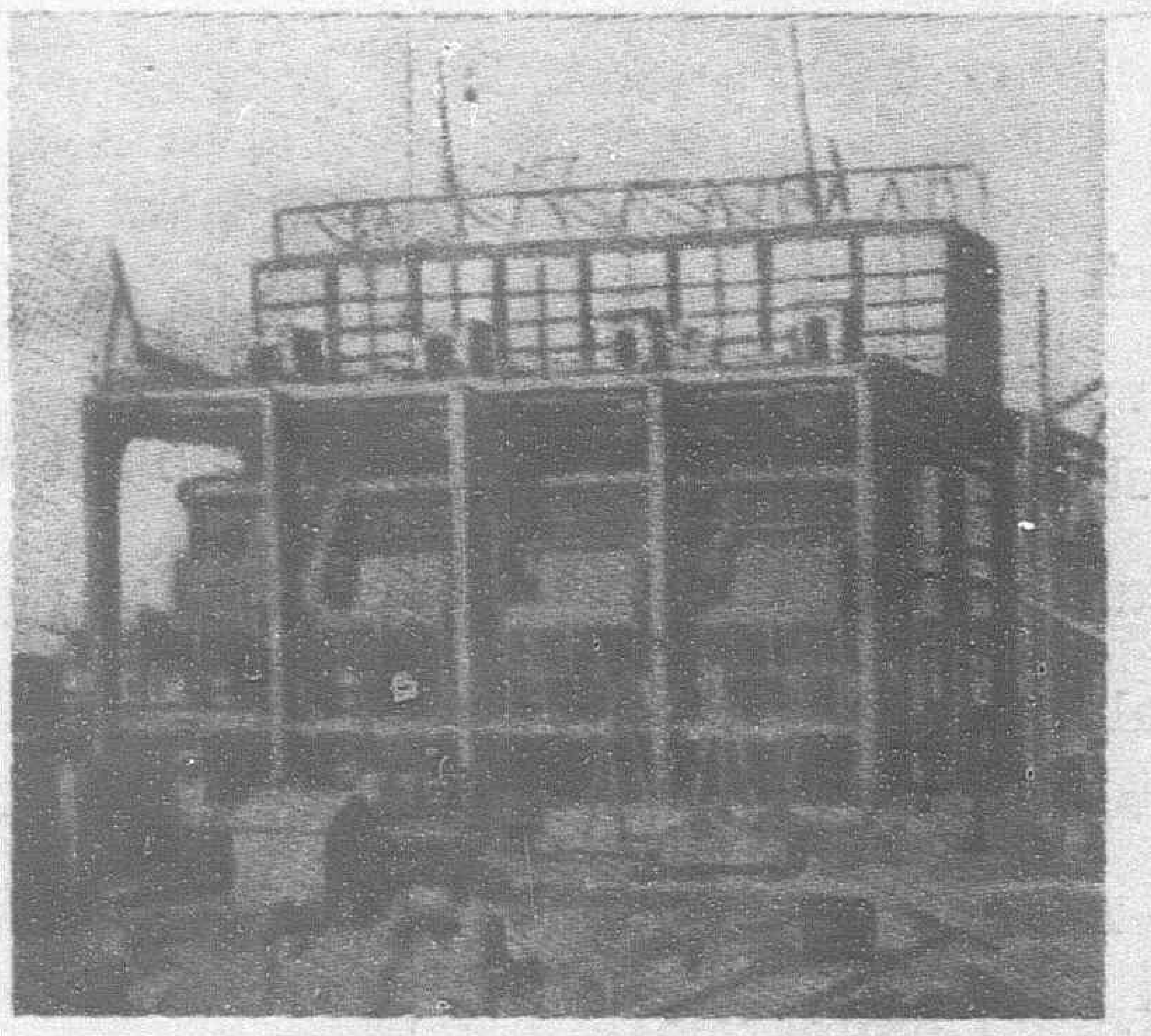

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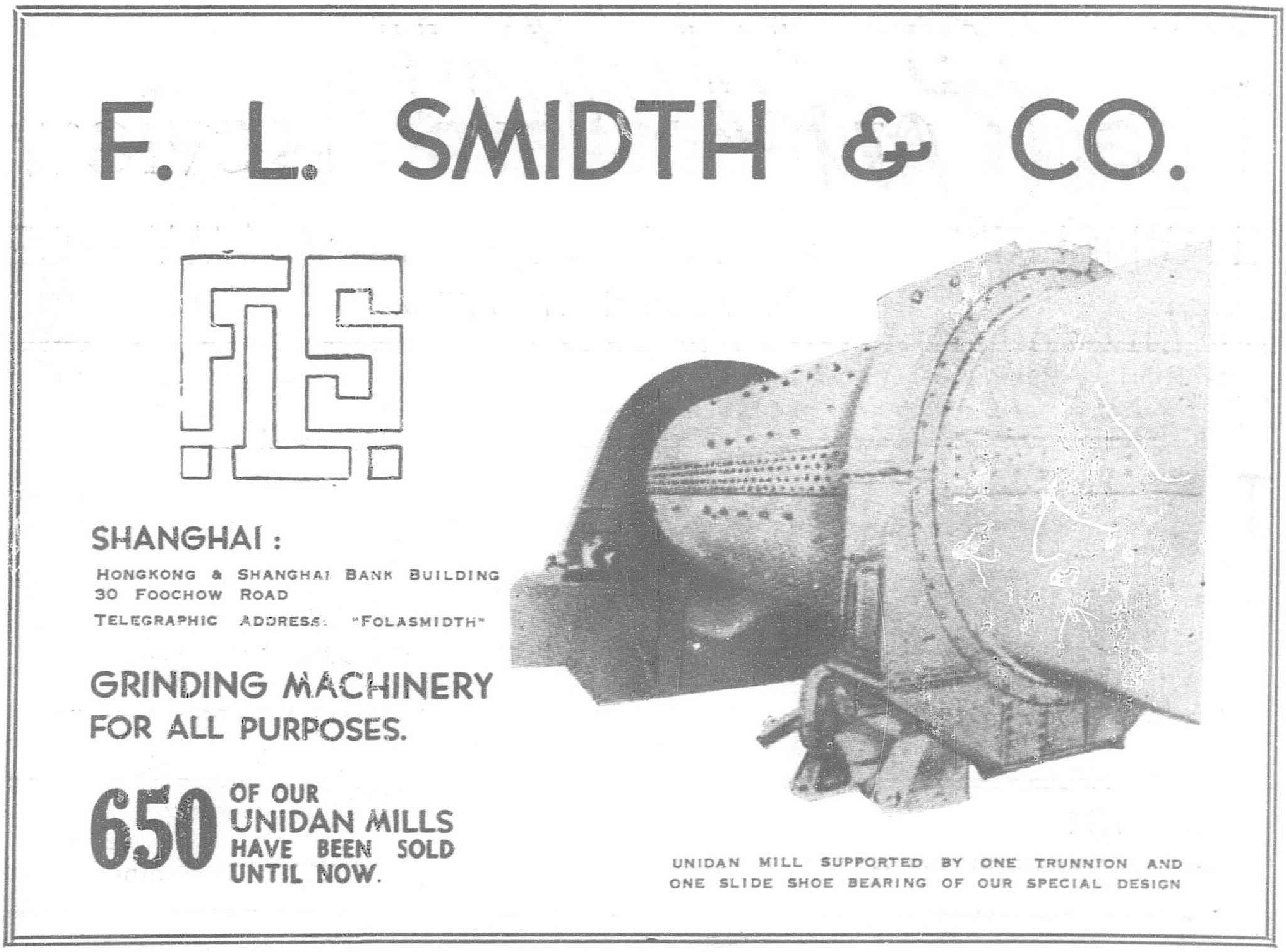

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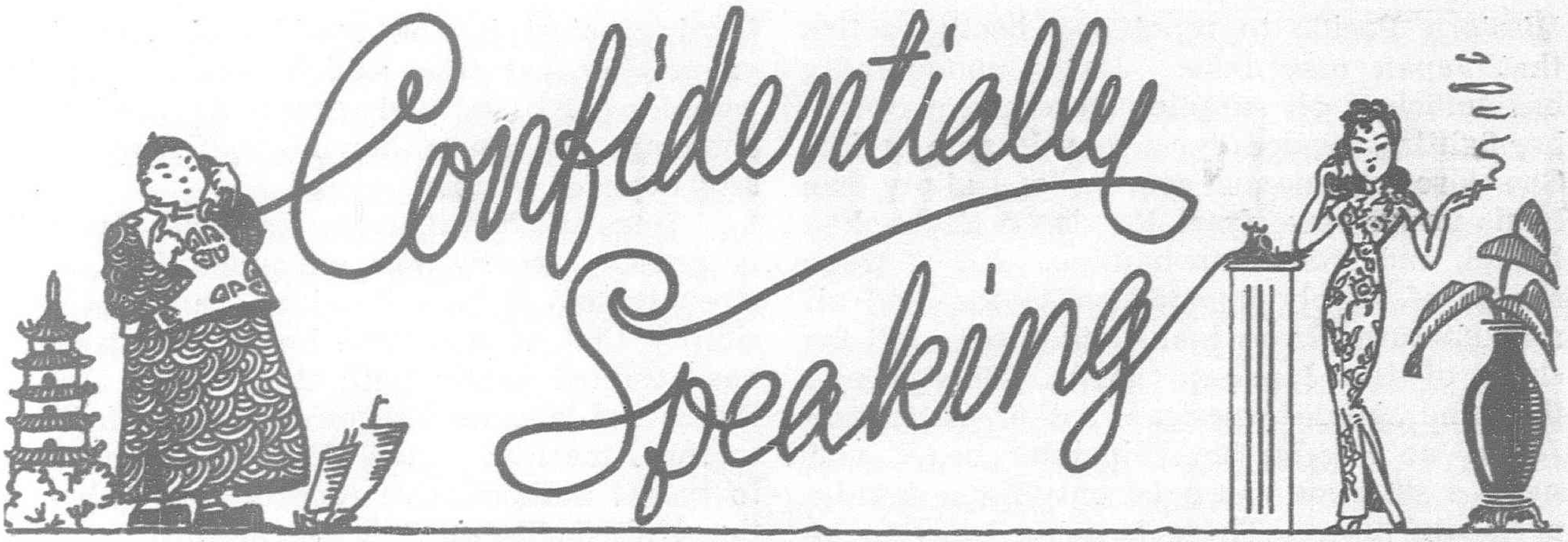


Confidentially Speaking

THE few hopeful rays that a month ago were breaking through the overcast political skies in the East, when high hopes were held for the outcome of conference going forward in Washington and Tokyo, have become completely obscured by unbroken lowering clouds that carry a distinct menace for the future. The factors that make for war in the Pacific outnumber, if they do not completely overshadow, the more hopeful elements in the situation that point toward peace.

How in the world the New York *Herald Tribune* could have construed news cables from Rome or elsewhere to indicate that the recent conferences between the Pope and Mr. Myron Taylor, President Roosevelt's personal Envoy to the Holy See, might lead to the ending of the Sino-Japanese war is just one of those weird questions that crop up from time to time in the news columns of newspapers. So widespread is the general hope in the Far East for the endng of war that even this futile news report eagerly was seized upon and widely discussed when it was given special undeserved prominence by news editors. Assuredly, the Holy Father at Rome shares the desire of the populations in the Far East for an early ending of the conflict in China, but even his vast influence cannot be expected to determine the outcome of the fighting. After some four centuries of effort by Catholic teachers and about a hundred and forty years of striving by mission workers of other Christian sects, largely American from overseas, the number of native Christians in China approximates one per cent of the population, and only a fractional part of this one per cent is Catholic. The same proportions perhaps hold true in Japan.

* * *

IT TAKES no experienced observer to see that the outlook in the Orient for peace, for commerce, and for a restoration of conditions more endurable is dismal. No inkling yet has been given of the contents or purport of the message that was addressed some six weeks ago to President Roosevelt by the Japanese Premier, Prince Konoye. No scrap of information has been given out even in Washington or Tokyo of possible results of conferences between Japanese Dai Nippon and the United States.

On the frail basis of unconfirmed press reports that a 'standstill agreement' had been reached at Washington it was believed hopefully in some quarters that something actually had been achieved to relieve the tension. It was thought possible that some broad oral understanding that neither Washington nor Tokyo would desire at this time to put down in writing had been arrived at to bridge a dfficult time.

It is painfully apparent that not even a tentative understanding has been reached and, assuredly, there has been no 'standstill agreement' because clearly, although Japan has made no decisive moves, the United States and Great Britain are not standing still in the situation. In a statement of some months ago President Roosevelt said that the United States had been supplying to Japan up to that time limited qualities of oil with a purpose of deterring the Nipponese from any move against the Netherlands East Indies. Japan needs oil today probably more acutely than she needed it last year. It was disclosed early in October that all sources of oil supply to Japan from United States, British Possessions and from the Netherlands East Indies have been closed. This refutation of any 'standstill agreement' between the United States and Japan can only mean that the Anglo-Saxon powers are ready and willing now to chance a conflict in the Pacific. Britain and the United States in deciding to deprive Japan of oil from sources that they command appears to have calculated that they have recruited sufficient armed strength in the

Western Pacific to repel any hostile action that Japan may take. Japan undoubtedly has sufficient oil supplies stored to maintain her fighting services for a considerable period. She also commands sources of supply she holds under lease from Russia on Sagahalien Island, and from Manchoukuo. All of these source of supply in addition to the fuel oil manufactured from coal undoubtedly fall far short of the Japanese needs. This means that the Anglo-American action is forcing Japan "to live on her principle" in oil, and such a situation can exist only for a definite period of time. There is some basis to be found, therefore, in the utterances of some Japanese patriots today who affirm that "Japan must again fight great odds for her continued existence."

FUNDAMENTAL differences of view between Tokyo and Washington that have brought relations between Japan and United States to the breaking point are so deep-seated that it seems impossible that any means can be found to reconcile them. The pathway to concord between the two nations is blocked by obstacles while a wide range of causes that easily could lead to war are clearly apparent. An editorial published last month in the Scripps-Howard papers said that the threat of a Pacific war now is the greatest in history. Before the United States is manoeuvred into shooting in the Atlantic, the editorial added, it must decide how much it is willing to risk in the Pacific. It now appears that Washington has taken its decision and has taken the risk.

ALL the omens indicate that nations of the Far East are on the eve of great changes; the situation is pregnant with possibilities, all of them sinister. One thing only seems to be certain—affairs will not much longer be permitted to drift as they have been doing. Something will happen. It cannot be expected that Japan will remain inactive and passive while gradually her vitality is drained away by economic strangulation. To those who would ask, what can Japan do? a reminder may be offered that at the time of the termination of the Naval Treaty five years ago Japan's naval strength was the third greatest in the world and competent experts at that time said it would take the combined British and American navies to challenge Japan in her home waters with any hope of victory.

Since the naval treaty expired, Japan, it is known, greatly has expanded her naval strength and it is well within range of possibility that at this time her naval strength has attained parity with that of the United States and in some categories may be superior to the American naval strength. According to recent authoritative reports originating in the United States the Japanese submarine strength is far superior at this time to that of the United States.

On paper, say these reports, the U.S. Navy has something like 102 submarines, but only about 40 are of the long-range modern type. The others, built during and immediately after the World War, are of 800 tons displacement and have a short radius of action. In the light of the many improvements in undersea craft in recent years these can hardly be considered as very effective.

Japan has over 60 long range modern submarines and her others were built in the last dozen years. Japan's advantage in submersibles over the United States would be about three to two just now.

In case of war, which would send U.S. Fleet from Hawaii to the Far East, the fleet would have with it many of the 40 modern submarines. The other craft would be used at defensive positions such as Hawaii, the Philippines and Guam. The modern United States submarines would be used primarily for attacks on enemy warships and, if Japan were that enemy, her lines of communication between her main islands and her army in China also would receive attention.

Japan's submarine offensive would be against United States warships operating from Singapore and the Philippines. A considerable force no doubt would be sent to operate in those areas. Japanese submarines also could be counted upon to attack supply lines from Australia, the Netherlands East Indies and from the United States both by way of the Pacific and via the Cape of Good Hope. To maintain a United States Fleet in the Orient would require a large number of supply ships which would be a prime objective of submarine attack.

Japan would put great assurance in her submarine and air attacks on the United States Fleet and it would require a large number of anti-submarine vessels with the United States Fleet to prevent successful attacks upon the battleships.

Japanese submarines, having a radius of action of over 15,000 miles, could operate from Formosa, Hainan, Indo-China Palau and Yap in the Mariana Islands, throughout the waters of the East Indies, and along the coast of China. Submarines and land-based aeroplanes would operate in conjunction as is being done by Germany in the battle of Atlantic.

THE well-informed American Foreign Policy Association has pointed out that "occupation of Thailand by Tokyo's forces would present far greater dangers to British-American-Chinese defenses than the presence of Japanese troops in Indo-China." It declared that such a move "would open the way to a land offensive down the Malayan peninsula toward Singapore."

If Japan does attack Thailand it is considered likely that she will suffer more than economic reproaches from Britain and the United States. While the American government has thus far contented itself with warnings, Nipponese reports indicate that pledges of Anglo-American military aid, in the event of invasion, has been made to Thailand through diplomatic channels.

In Japan, the *Diplomatic Review*, which often speaks for the Foreign Office, recently said "there is danger of an explosion of the worst eventualities."

The entire Japanese press, during the recent period, has been alarmed by what is called "an American plan to form an encircling structure" around Japan. Specially, they regard with alarm the southward march of China's armies and are openly saying that China is preparing to fight in Thailand.

The influential Tokyo newspaper *Nichi Nichi* declared that China, "a tool of the Democracies," is awaiting orders to send her armies southward.

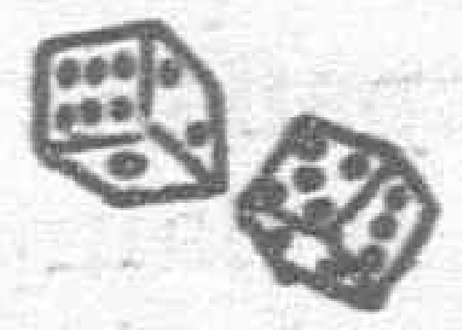
THE Japanese Government is endeavouring, to the last moment, to settle matters amicably" through the Japanese-American negotiations, which are still continuing, Mr. Koh Ishii, Deputy Spokesman of the Information Board, told newsmen on October 14.

In reply to an American correspondent's question as to when the last moment would be, Mr. Ishii said, "When the last moment will come, I cannot say. . . . We must be patient."

Regarding the dispatch of three Japanese ships to America, Mr. Ishii revealed that the arrangements had been made entirely apart from the Japanese-American negotiations.

When asked why official quarters denied the Associated Press and United Press reports to the effect that these ships were "evacuation ships," Mr. Ishii pointed out that "it would take a thousand ships to carry out the evacuation of Japanese residents in the United States," and reiterated that the ships were going to the United States "to solve the inconvenience of passenger congestion."

The Deputy Spokesman revealed that the ships would carry only passengers and mail, and not cargo, in order to avoid difficulties with possible claims on such cargo.



CHINA will receive US$133,000,000 worth of warplanes in the autumn of 1942 under the American lend-lease bill, while the Philippines at present was being given first priority on war equipment because of the "uncertain situation in the Pacific," high officials at Washington revealed in testifying before the House Appropriations sub-committee regarding the supplemental lend-lease bill.

General George Marshall, Chief of Staff, revealed that the Philippines garrison had first priority on war materials when he discussed the present United States production of arms and munitions for Britain.

Colonel B. E. Meyers of the War Department told the sub-committee that it was proposed to allocate to China from the new lend-lease bill US$133,000,000 for planes which would be delivered to China late in the autumn of 1942.

This lend-lease aid is beyond the US$7,000,000,000 currently being used for shipments to China, the Netherlands East Indies and Britain.

The Under-Secretary of War, Mr. Robert Patterson, told the sub-committee that the War Department wanted US$4,000,000 for the purchase of machinery and equipment to be sent to China "for the establishment of small manufacturing arsenals and maintenance shops in the interior of China.

"Such action will enable the Chinese Government to produce certain munitions in China and maintain motorized equipment furnished them by the United States."

He said that two-thirds of the sum would be used for arsenal machinery and the other one-third for equipment for maintenance shops for motor vehicles.

The chairman of the Maritime Commission, Admiral Emory Land, reported that US$24,000,000 would be required for transportation of lend-lease goods to China for the period ending May 31, 1942.

He said that his commission was arranging to make available vessels operating between New York and Rangoon for such materials.

He added that it was believed that 80 trips would be made before May 31, 1942, at the approximate cost of US$300,000 a trip.

JAPANESE newspapers on September 27 unanimously acclaimed the first anniversary of the conclusion of the Tripartite Pact between Japan, Germany and Italy asserting that the accord has served both to maintain peace in the Pacific and to aid the Axis in their aim to establish a new order in Europe.

The *"Japan Times and Advertiser"* stressed that Japan "was, and remains, a partner in the Three Power Pact, free to act for the best purpose of her own people."

While the Far East has benefited greatly from Axis support, the journal said, Japan's contribution could not be underestimated. "Had not Japan played her part in loyalty to the Alliance, Germany and Italy would have had to bear the additional weight of the democratic military force. To Japan therefore, much is owed by her western partner and due recognition, no doubt, will be given."

Thanks to the Three-Power Pact, the *"Times"* continued, healthy progress has been made in the Far East, namely, with reference to Manchoukuo, the National Government of China and Indo-China, while "Thailand's autonomy would have been at the mercy of ambitious Powers had they not been restrained by Japan's position."

"The profits have been mutual, the *"Times"* summed up, Japan receiving not more than she gave to the association."

Though many changes have taken place in the international situation since the signing of the Tripartite Pact, such as the outbreak of the Soviet-German war, the Anglo-American freezing of Japanese assets and the gradual encirclement of Japan by the ABCD countries, the *"Chugai Shogyo,"* leading commercial daily, declared, "Since the Tripartite Pact aims to secure a rightful place for the peoples of the three countries, as well as to establish world peace, it remains immutable, and should play a more important part hereafter in the disposition of world disorder."

"Many difficulties are confronting the constructive efforts of Germany and Italy in Europe and those of Japan in East Asia," declared the Japanese Foreign Minister, Admiral Teijiro Toyoda, at a luncheon before Axis representatives, on the first anniversary of the signing of the Three-Power Pact.

Mutual co-operation, trust and patience are essential to carry out the mission of the pact he added.

German and Italian representatives, including the German Ambassador, Maj.-General Eugen Ott, and the Italian Ambassador, Signor Mario Indelli, attended the luncheon, as well as diplomatic representatives of the other Axis partners.

Admiral Toyoda said the pact had accomplished a great deal but emphasized the difficulties confronting Axis nations, which called for increased efforts on their part. Each signatory Power, he added, should renew its determination to surmount any difficulties blocking fulfilment of the mission of the treaty.

SENATOR Edwin C. Johnson, Democrat of Colorado, on October 9, said he had collected "quite a bit of evidence" of subversiveness among Japanese residents of Hawaii and the Pacific Coast during a trip last year to Hawaii.

"Although most Japanese may be legal residents of Hawaii," he said, "they are still committed to carry out the Japanese Government's orders."

Senator Johnson, with Senator Guy M. Gillette, Democrat of Iowa, is the co-sponsor of a resolution, referred to the Senate Foreign Relations Committee, recommending appointment and financing of a committee to investigate pro-Axis propaganda organizations in the United States and possessions, especially Japanese organizations.

The Foreign Relations Committee was expected to ask the State Department for an opinion on the matter. It was thought the State Department might object on grounds such an investigation would worsen an already delicate situation.

THE *"Asahi Shimbun"* reported from San Francisco that Japanese and nisei residents in California numbering more than 100,000 who are living under the strain of increased Japan-American tension, received heartening assurance regarding their future when announcement was made of the creation of the "Committee for the Protection of Japanese Residents and Japanese American Citizens."

The charter announced by the Committee is composed of outstanding Californian leaders and pledged the Committee would do its utmost to safeguard Japanese residents and nisei legally as well as morally no matter what may happen in the future in Japanese-American relations.

The Committee lauded the loyal, upright character of Japanese and nisei who have been drafted for the United States Army.

The utmost effort would be made to convince the American people of the Committee's aim, it was stressed.

The impressive roster of supporters of the move included Governor Cuthbert Olson. Mr. Robert Gordon Sproul, President of California University, Mr. Ray Lyman Wilbur, President of Standford University, Mr. David P. Barrow, ex-President of California University and Commander of the California American Legion, and Mr. Chester Rowell, noted political commentator of the San Francisco Chronicle.

ONE of the paradoxes of the second great war to make the world safe for democracy, 1939-194—?, is that the chief combatant in defence of democracy rules vast colonies where there is no democracy. India, for instance, was catapulted into the war without being consulted, and today her fighting men make up vital units on active war fronts. At the same time hundreds of political prisoners are being held in Indian jails for opposing the war.

One day not long ago, William Randolph Hearst, the great publishing tycoon and now a front-page columnist in his own chain of newspapers, received a letter inquiring as to the application of the Roosevelt-Churchill eight-point post-war aims. "Does that include the enslaved nations of India, Persia, Egypt, Arabia, Syria, Tunis, Algeria and Morocco, Madagascar, Tripoli and many others?" the writer, a Mohammedan, asked. "To me," he said, "whether a nation is invaded by a biltzkrieg or by parliaments of ruthless politicians the crime is the same."

Mr. Hearst devoted his entire column to the reply. In part, he wrote:

> "The gentleman asks some pertinent and rather perplexing questions regarding Mr. Roosevelt's and Mr. Churchill's eight points.
>
> "To answer frankly, Mr. Sidi Mohamed Ali Barada's annoyingly direct questions we would have to say that it would be extremely optimistic to infer that in practical operation any of the eight points of Mr. Roosevelt's and Mr. Churchill's pronunciamento would result in the release of the nations which Mr. Barada is pleased to call enslaved from their—er—ah bondage as it were.
>
> "Probably when the eight points come to be applied—or rather not applied—in the post war period the "enslaved nations" under the dominion (despotic or democratic) of Russia or England, or of France in its arrangement with Germany, will remain, we might say, as is—indeed with perhaps another knot or two tied in their bonds.
>
> "Who or what—when the war is over—is going to prevent the hands which originally tied the knots from tying them tighter.... Who will there be to say to the British empire nay, and to compel the easement of the white man's very voluntary burden in Asia and Africa?"

The only possible answer is that the imperialists themselves, either ashamed of their hypocrisy or sincerely altruistic, might untie the knots voluntarily. At least there has been a loosening of the bonds in the British-protected state of Sarawak in Borneo, ruled for a hundred years by the Brooke family as the fabulous White Rajahs.

On the 100th anniversary of the founding of the government, Sir Charles Vyner Brooke bestowed a Constitution on his subjects in the presence of representatives of King George, the Governor of Singapore, the British fighting services and the Malay and Mohammedan communities. The new Constitution provides for the gradual abolition of the absolute rule which the Brookes have exercised since the first Rajah was sworn in on September 24, 1841.

That, in part, is an answer to Mr. Hearst's pointed question.

Yet the wise Mr. Hearst, who has seen history made, is cynical and skeptical. "Mr. Sidi Mohamed Ali Barada must bring himself to face the cold hard fact that these international political points are not sharp enough to stick after the emergency which produces them is over." he writes.

> "The treasuries of the mighty Christian countries are not going to be voided of the wealth that has been accumulated by the sweat of enslaved nations.

"Not exactly.

"Indeed it would be considerably easier for a camel to pass through the eye of a needle than for any far-flung empire to abandon the dominions which are the bases and buttresses of its structure.

"The high sentiments expressed by the eight points and the fourteen points are like the boiled shirts and black coats of our occidental civilization only bought out for weddings and funerals and kept stored away in the moth balls of disuse on all practical workdays."

◆

AS German submarines continued their attacks on American shipping, a showdown on repeal of the Neutrality Law loomed in Washington. But there was evidence that the public was confused on the matter.

The main point was and is that if unlimited American material aid is to be rushed to Britain, the Neutrality Law must be repealed to enable American shipping to enter English ports. So far, aid is being pushed with all sorts of devices to circumvent the Neutrality Law which leads to confusing problems.

Take the case of the steamer Pink Star, first American-operated vessel to be sunk since President Roosevelt's orders to shoot on sight Axis war vessels in American defensive waters. The Pink Star, although American-operated, was registered under the Panamanian flag to circumvent Neutrality Law restrictions. This enabled her to be armed and to enter belligerent waters. It also technically ended American responsibility for her. The ship was in a Canadian escorted convoy, which meant she had accepted the protection of a belligerent and was to be considered as in belligerent service in addition to being armed.

Thus it was not an American ship that was sunk by the Germans. It was a Panamanian ship in American-service, it was protected by a belligerent and on belligerent duty. But to the American public it was an American ship that had been sent to the bottom.

Inasmuch as the American Government and a great part of the American public takes the attitude that the 125 U.S.-owned ships (45 of them government vessels) under the Panamanian flag are still America's responsibility and are in fact American ships, it would be more American to throw the hocus-pocus of foreign registry overboard and operate them directly without the meaningless subterfuge.

It is an unhealthy mental state of affairs to keep a statute on the books when the public mind has been conditioned to its violation in spirit while retaining the letter of the law. After deluding themselves for almost two decades the American people repealed the Eighteenth Amendment. They finally faced the issue and decided that prohibition of liquor was not feasible nor was it honest when they made it a practice to try to evade the law. A pre-repeal sort of situation appears to prevail today regarding the Neutrality Law.

◆

COMPLAINTS about the manner in which the Currency Stabilization Board is conducting its affairs have been numerous and one heard most frequently in Shanghai seems especially pertinent. As things are now the Board does business in Hongkong. A Shanghai merchant, or even a resident desiring to leave for the United States, must apply to Hongkong through a local bank for the desired American dollars at the official rate. Otherwise he must go to the black market and purchase currency at from 20 to 25 per cent. higher rates.

The crying need is for a Shanghai office of the Board empowered to pass judgment on all applications from this vicinity. Hongkong is a British Colony and war-time conditions exist there. All communications must go through a rigid censorship and mail service is not as rapid as it should be. Americans find it almost impossible to get British visas enabling them to visit Hongkong, and that city is not the center of Anglo-American commercial activities in China. Since the Stabilizaton Board is a joint Anglo-American enterprise it is only logical that it should be located where it will most benefit Anglo-American commerce.

The clinching argument is to be found in trade figures. China imported U.S.$260,000,000 from countries outside the Sino-Japanese conflict areas in 1940. Of this amount Shanghai alone handled 65 per cent. of the volume according to the United States Department of Commerce, and the U.S. was the largest supplier and largest purchaser in regards to Chinese trade outside of the Yen bloc.

No convincing argument has been heard yet as to why the Board should continue to do business in Hongkong alone.

Tea Leaves from Lo Pat's Garden

by
Shamus A'Rabbitt

War is hell
As we know well
Especially when
The coffee's cold
And toast is old
And without hope
For scented soap
We do our bit
And brag of it.

* * * *

One virtue possessed
By most flatterers is
That they do not bore others
By talking about themselves.

* * * *

Flattery may be a trap
For young girls
Old men
Vain women
And fools
But the hell of it is
None of us know
When we are
Stung.

* * * *

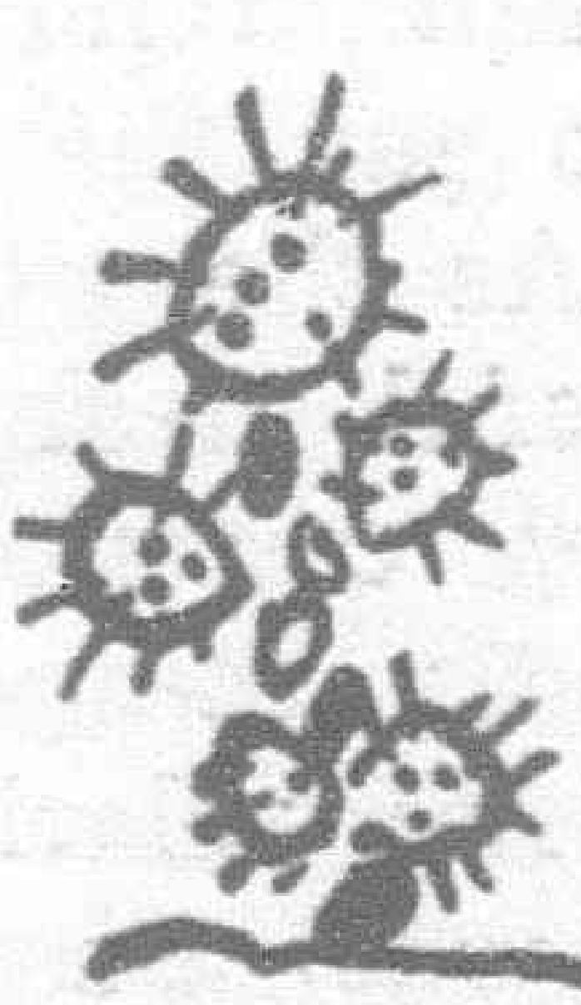
When young
We can spurn flattery
And laugh at the old men
Who fall for it.

* * * *

It takes
A generous girl
To flatter an old parchment.

* * * *

We think our altruism
Spiritual development
Instead of thanking the gods
For the favorable environment
Which gives us more
Than we need for sustenance



* * * *

The seeds of altruism.
Flourish not
In arid lands.

The bountiful soul
Is a product of
A fertile soil.

* * * *

Where population is sparse
Man must fight silently
With nature.

* * * *

Where population is dense
Man must become eloquent
In his struggle
Against man.

* * * *

If all the world
Were thoroughly sane
It would drive us mad.

* * * *

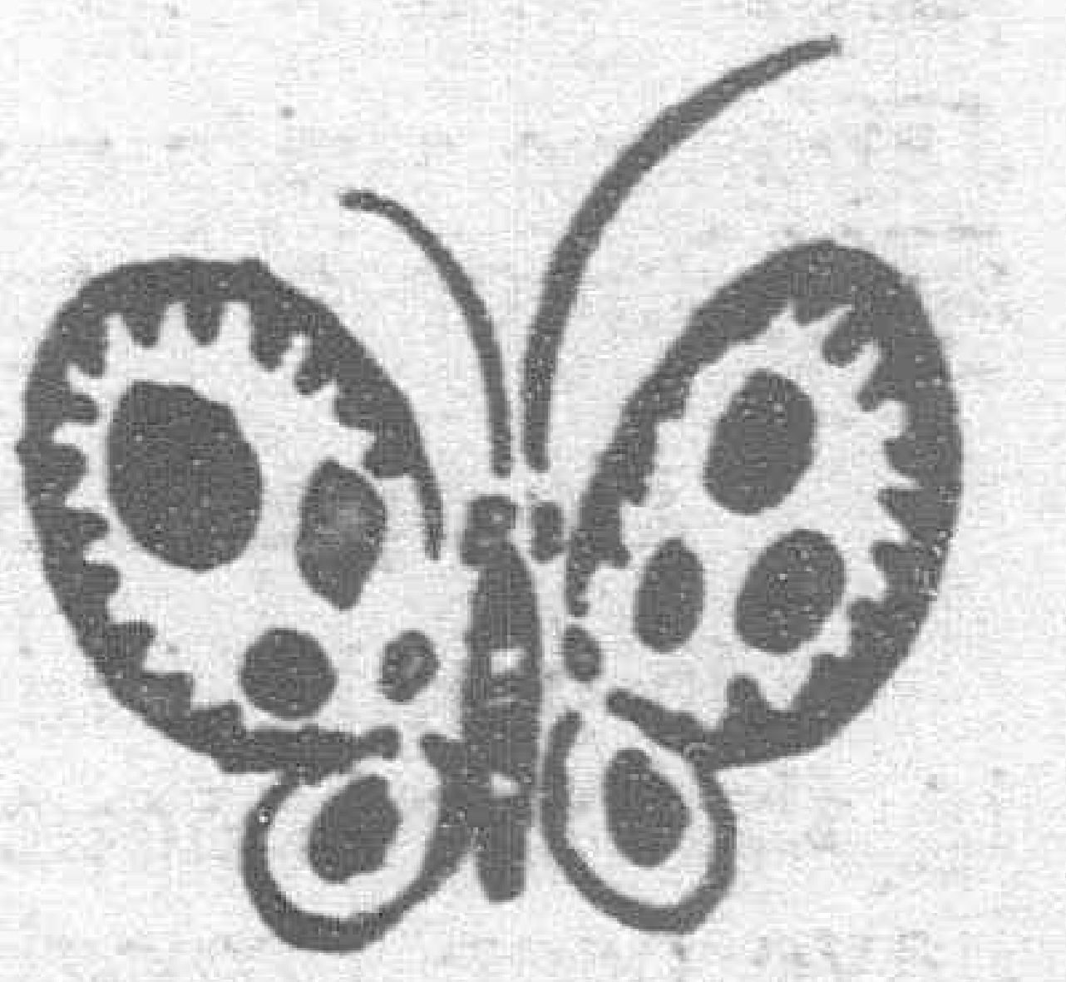
Those struggling
To keep the wolf
From their door
Care not what
The other half think.

* * * *

Some men's meat is naught but bones
Some farmers' work doth grow but stones
And some who sow our crops of wheat
Have naught but worthless chaff to eat.

* * * *

Facts and not opinions
Decide the course of nations
And the destiny of man.



A Pan-Asiatic Union: A Japanese Conception

By SHINGORO TAKAISHI

(Annals of The American Academy of Political and Social Science)

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IF ONE carefully looks into the Sino-Japanese conflict, he will discover that side by side with the destruction which is an inevitable concomitant of war, there are in operation forces which tend toward construction. The ruinous phase of the incident overshadows the positive side because it is more dramatic and sensational. Yet an observing eye will not fail to perceive a tremendous undercurrent flowing beneath the troubled surface of the sea. While the reports of army collisions, of bombing of cities and towns, and of cutting military supply routes in China give the impression that the two large neighbor states in the Orient are engaged in mad destruction, efforts are being quietly made for the fundamental adjustment of the century-old problems which have constituted the cause for frequent disturbances not only in China but in the whole of the Far East. Determined efforts are being made, furthermore, toward creating a state of affairs where peace instead of strife, harmony instead of discord, prosperity in place of poverty will become the rule of association among nations in this part of the world. In that it furnished inspiration for this great movement and even suggested the basic plans of reconstruction, the Sino-Japanese strife may be regarded as the necessary labor attending the birth of a child.

Co-operation Refused by China

It would indeed have been much better if the movement for this new order could have been brought about without tragic conflict between China and Japan. If Dr. Sun Yat-sen, the founder of modern China, had lived longer and put into practice his doctrine of the brotherly union of the Eastern peoples for the renaissance of the Orient, the situation might have been different. His premature demise and the subsequent interference with China's domestic affairs by Western nations led the country once more to confusion. The young leaders who succeeded Dr. Sun were mostly of Western education and naturally had an inclination to undermine Japanese relationship in preference for the Western influence.

Japan's protests, sometimes even with retributive implications, usually met with rebuff and had the opposite effect of driving China into greater commitments to the Occidental nations. China clearly feared Japan's encroachment and tried to suppress it by playing off the Western powers against her. This policy proved successful: the Washington Conference and other international negotiations led to a gradual dislocation of Japan's position on the continent until it looked as if China's doors were closed against that country.

All the while, Japan remembered the sacrifices which she had made in order to save the Far East from the claws of a monstrous aggressor. Except for the heroism of the then small island nation in facing the colossus of Russia sweeping down on China and Manchuria like an avalanche, the fate of China would have been sealed. And certainly if it had not been for Japan's stern opposition, the dismemberment of China at the hands of the European powers would have been unavoidable. To the Japanese mind, on which are deeply imprinted the memories of Japan's desperate struggle, the question of Japanese priority in China is idle; any attempt at her exclusion from that country is, to say the least, absurd.

As the world knows, Japan tried every peaceful means to dissuade China from her wrong course, but she continued to refuse friendly co-operation in any field of international relations. The Sino-Japanese conflict was the grievous consequence of this anomalous state of affairs.

Benefits of the China Emergency

The China emergency is thus a necessary sacrifice which has to be endured for the sake of founding a new Orient in which the Oriental peoples can enjoy peace and unstinted happiness without molestation from the peoples of other continents and of different racial affinities, who possess their own vast domains for their activities and expansion.

The emergency has served a double purpose in that it has awakened the Chinese and the Japanese alike to the fundamental errors in their attitudes. While the Chinese are realizing the costliness of the treacherous diplomacy that would keep nations quarreling, the Japanese are perceiving the need for adopting a more broad-minded attitude in dealing with their neighbors. A definite expression of this psychological change is seen in the terms of peace agreed upon between the Nanking government of Wang Ching-wei and the Tokyo government. While the Chinese pledged to discard the anti-Japanese policy and to collaborate with Japan in the promotion of mutual welfare, the latter totally abstained from making any demand that would imply invasion or conquest. She has even renounced her right to ask for indemnity, believing that a friendly China is worth much more than the huge sums she has spent during the conflict. She now earnestly hopes that the Chungking regime, which continues meaningless resistance, will in time give up its false pride and join the Nanking government to realise a unified China. In the peace established between Nanking and Tokyo with the firm promise of friendship and co-operation, we have the starting point for the building of a new order in East Asia.

Necessity for a New Order

The status of the new Orient as conceived by the leaders of China, Manchuria, Japan, and other countries interested is not simple or unitary. What is perfectly agreed upon is the conviction that a new order must be created in this part of the world with a foundation strong enough and sufficiently broad to permit the erection of an imposing structure. There is an extensive claim that, inasmuch as the United States proclaimed the Monroe Doctrine and on the strength of it successfully set up her sphere of influence in the Western Hemisphere, Japan should follow that example and take the leadership in proclaiming a similar doctrine in the Far East. The sentiment of the men advocating this step may be exemplified by the following discussion:

> As to the wisdom and practicability of adopting such a doctrine [Monroe Doctrine] for Asia, opinion may be divided. I, for one, am in favor of it. With China in a state of chaos, with the Philippines likely to become independent within a few years, with India and Siam animated with a new spirit of freedom, it is desirable that the peoples of the Orient should before long, if not now, take a definite stand as to the maintenance of their territorial integrity. This is all the more desirable as the disruptive and disturbing forces of Red Russia are constantly at work in the Orient.
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> Such a pan-Asiatic movement requires able leadership. Japan, let us frankly concede, is the logical nation to assume leadership, just as the United States is the logical leader on the American continents. But Japan must not repeat in the Orient the mistake made by the United States in her attitude toward Latin Amercia. If the Monroe Doctrine is to be proclaimed for the Orient, it must be a result of consultation and agreement among the Oriental peoples concerned, and not an arbitrary dogma conceived by any single nation who reserves the right to interpret and apply it as it pleases. It must have a definite meaning, understandable and acceptable to all nations which it aims to safeguard.*

Necessary Elements of Success

It is hardly necessary to point out that the success of an attempt at establishing a sphere of influence in any part of the world depends upon the strength of the unity among the states falling within it and the power to resist opposition from outside. The Monroe Doctrine was favored in that at the time of its declaration the South American republics were in a position to support it, and in that the New World was separated by a safe distance from the seats of hostile powers. A tremendous amount of difficulty is in the path of setting up a similar institution in the Far East. In the first place, the countries to be included in it are not uniform in their political status and in the stages of their cultural evolution. Of the plausible candidates for membership, French Indo-China, the Philippines, the Dutch East Indies, and the Straits Settlements are not independent. Only China, Japan, Manchukuo, and Thailand are free to act according to their own

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*Hilario C. Moncado, *America, the Philippines, and the Orient*, pp. 134-35.

will. This difference in political status, together with inequality in the cultural levels attained, will surely prove a great obstacle. The fact, furthermore, that the stakes of the Western powers in these countries are great and of long standing points to determined opposition from outside. Yet these circumstances do not permit abandonment of the projected plan for fear of difficulty. Its success or failure depends upon the wisdom, the tact, and the sincerity of Japan in her contact with the prospective member states, and her courage and determination in dealing with the great Western powers concerned.

The project would be doomed to failure if it envisaged the establishment of a regimented sphere of imperialism. No nation, small or large, whether within the arena or outside it, would permit such an arbitrary attempt. As it is conceived in Japan, the proposed new order is an institution of a wholly different character. Fundamentally, it is to be the solidarity, or the union, of neighboring states sharing in greater or smaller degree common racial and cultural origins and enjoying geographical propinquity, to be founded by their voluntary agreement for the purpose of assuring their common safety and promoting their mutual happiness and prosperity. The basic principle of association within this unit is to be *"Hakko Ichiu,"* signifying "all nations in one family, each enjoying its own proper place within it." The family relationship may be subject to law, but it is much more than a mere legal arrangement. In it there prevails love and affection among the members, from which emanate rich human qualities like respect, courtesy, sympathy, thoughtfulness, and so forth. With such harmonious family life, the members cannot help enjoying each his own proper place, not claimed as a right, but gladly accorded by other members. One weakness of the Western conception of international association is undue subordination of the human elements to legal ideas. The projected Oriental Solidarity seeks to avoid this mistake by reversing the order and placing humanity above legality. Inasmuch as the Oriental civilization is essentially ethico-aesthetic, the idea will surely meet with general approval.

Principles of East Asiatic Solidarity

A general outline of the principles governing the organization and activities of the East Asiatic Solidarity, as generally conceived in Japan, may be introduced under three heads—political, cultural, and economic.

Politically, the proposed solidarity will not require its member states to modify the forms of their own respective governments or political systems which are the outgrowth of their peculiar histories and natural environments. They will, however, be called upon to adjust their policies to the requirements of the whole, so as to procure unity and harmony within the family. In no circumstance will the members be permitted to adopt policies aimed at their exclusive benefit at the expense of fellow members. While no fetters are put upon them in their legitimate activities for progress and expansion, there will be rigid suppression of any conduct that would prove detrimental to the solidarity as a whole.

In this and in many other respects, the examples set by the League of Nations are valuable. In that institution, member states maintained absolute independence, while at the same time permitting the League to formulate certain principles of action which they accepted and followed. The scope of the subject matter with which the League dealt was almost co-extensive with the total activities of the member states. It ranged from sanitation, white slavery, and labor questions to war, armament, and international sanctions. In these encyclopedic activities, especially in the field of social and industrial legislation, the League of Nations achieved results which deserve the highest commendation. The League failed, we take it, not because its activities were multifarious, but because its sphere of jurisdiction was too wide, extending as it did to the entire world. The world contains several continents, some sixty-four nations, and a boundless amount of problems. The attempt at maintaining a rigid *status quo* in this wide world without permitting room for vigorous and ambitious nations to grow was too arbitrary and unnatural. It would have worked much better if there had been set up several regional units with large flexibility, which in turn were federated into one central organization.

As a typical example of the regional unit, it is possible to mention the Pan American Union sponsored by the United States and serving a useful purpose. By means of joint commissions and conferences, the Union strives to insure the safety of the American continents from external aggression and to further the interests of the member states by means of economic and financial adjustment. The functioning of the Asiatic Solidarity may resemble that of the League in that the range of its activities will be very broad, but in point of placing special stress upon the safety and the prosperity of a limited and exclusive sphere, it will more closely approach the means for enforcing unity and authority within the group, whether a permanent organ like the League's Council shall be set up or the task be assigned to joint commissions, or whether still other schemes shall be contrived, is a matter which can be decided only after thorough study and consultation among the nations to be associated.

Cultural

If the Eastern Solidarity is to attain an important position as a source of general welfare and progress for the prescribed territory, it is necessary for it to see to the cultural elevation of the constituent states. This is particularly urgent since, unlike the Pan American Union, its prospective members comprise countries of highly diverse cultural standards. There should be a definite attempt at unification, not necessarily of kinds, because different cultures may be harmonized into a brilliant whole, but of levels of achievement.

The Chinese culture is an old one and constitutes the basis of the Asiatic civilization to which the cultures of all the Asiatic peoples owe their origin or inspiration. Japanese culture is no exception: its native civilization received the powerful influence of the Chinese culture at an early stage and was thereby enormously enriched. In the modern period, however, it came into contact with a new civilization and absorbed from it many novel elements which almost made it a new synthesis. Especially in the field of technology and industrial and business organization has the influence of the Occidental civilization been significant.

The Asiatic civilizaton is fundamentally ethical and aesthetic; the absence of the scientific element has been its weak point. By blending the Oriental and the Occidental cultures, Japan is tending to foster a new type of civilization richer than any in existence. In that the goal of cultural endeavor for the Eastern Solidarity is the creation of a system of harmonious civilization that would incorporate the very best of human achievements; the interesting example of cultural synthesis carried out in Japan may furnish guiding principles.

Economic

The economic question is the cardinal point in the structure; it is, in fact, the very motive for the solidarity movement. The economic co-operation within the Far Eastern grouping has its starting point in the recognition of the peculiar economic conditions prevailing within its component states. Apart from the wide divergence in the stages of industrial evolution, there is a marked difference in the kind of productive activites maintained. Some countries are endowed with rich natural resources and raw materials, while others maintain an extensive scale of highly developed mechanical industry. In the absence of any attempt at the co-ordination of economic activities, there are wasteful duplication and regrettable maladjustment of production and distribution among these countries. The amount of benefit to be derived by them through rationalization or controlled economy, would certainly be very great.

As an example of wasteful duplication, one may point to sugar. This particular commodity is produced super-abundantly in Java, and enough of it is turned out to cover the total consumption within the Japanese Empire. In addition, the Philippine Islands produce vast quantities which they are obliged to dump on the American market to the latter's incessant perplexity. If, then, the Philippines curtailed the sugar industry and produced cotton, Japan with her huge cotton industry would be able to consume it to the benefit of both.

The case of sugar is not a solitary example; similar duplication exists in many other fields of production, which by the application of reason could be easily readjusted.

Scope and Implementation of Joint Control

Reorganizing the value of and the need for economic co-ordination for the sake of eliminating waste and obtaining the maximum results, the next question will be as regards the extent of joint control and the means for its implementation. Such an undertaking, in order to be effective, must be comprehensive; it should deal with as basic a matter as readjustment in the kinds of productive activities carried on by different peoples, as well as with such a trivial point as the stabilization of interestate monetary relations. It should certainly include adjustment in the supply of and demand for labor, both skilled and casual; extensive revision of customs tariffs; assurance of a smooth flow of working capital, preferably through the establishment of a central financing institution or consortium; and efforts at increasing productivity among raw-material-producing countries through the introduction of scientific means and the stimulation of consumption of their products by industrial nations. Consideration must also be made of the measures to be taken in case of international emergency, as at present. It would be necessary in this regard to define a safety zone within which belligerent activities are prohibited; to prevent any attempt from outside to disturb the *status quo* within the solidarity; to curb non-neutral and subversive activities within the member states; and to create a vigilance commission which would take prompt action to assure the safety of the whole.

By way of experiment, Japan is actually undertaking with the collaboration of China (under the Nanking government) and Manchuria a kind of planned economy in which these three countries are a unit. Careful investigations have already been made concerning the products of these countries, both actual and potential, and steps are being taken to correlate them for the purpose of assuring a sufficient supply of necessities in these countries, utilizing the surplus for the object of augmenting further productivity. There is being conducted a rather liberal exchange of skilled labor and industrial experts to assist in developing natural resources and in launching industries in suitable regions. Joint commissions are kept busy adjusting tariffs, regulating currency relations, supplying a sufficient amount of working capital, and facilitating the distribution of raw materials.

In this gigantic production scheme Japan is assigned the task of increasing the output of heavy industry in particular, besides maintaining the highest efficiency in the various industries in operation, China is called upon to multiply the products of her mineral industries and light mechanical industry, utilizing her teeming millions; Manchuria is requested to speed up the supply of coal and iron, besides increasing the products of agriculture. The scheme is working well and is already obtaining results greatly surpassing expectations. While it is not expected that a similar sort of intimate co-operation will take place with other Oriental nations, nevertheless it is hoped that this will serve as a nucleus for the broader unity contemplated.

Objectives of the Union

In proceeding to build up the Pan-Asiatic Union so conceived, Japan chooses the careful method of approaching nations individually and discussing with them the methods of co-operation. The negotiations are delicate and often prove very difficult, especially because of obstructions placed in the way by those powers which, while themselves profiting from the similar regional co-operation of neighboring states, do not feel inclined to recognize the freedom of others to follow their example. Japan is convinced, however, that it is her duty and right to set up a new sphere of freedom and prosperity in the Far East in which the Oriental peoples, hitherto pathetically relegated to subordinate positions by predatory powers of the West, can assert themselves and enjoy the fruits of their own efforts and industry and live without the humiliation of national and racial discrimination. And she is firm in the belief that with her leadership and national strength she can fulfill this mission and develop a powerful solidarity which, when united with other similar units, will go to make up real universal unity and harmony.

The 20th Century

Under German sponsorship a new and uncommonly pretentious journalistic effort is being added to all those that have gone before in Shanghai in the form of an attractive, ably-produced magazine that bears the title, *XXth Century.*

In its first number *XXth Century* presents an arresting array of articles devoted largely to Far Eastern lands.

Rather novel illustrations are to be found in the new publication, notably a page in color picturing Cam Ranh Bay, the port on the Indo-China coast that bids fair at this time to come into sudden world prominence. This picture, evidently reproduced from an artist's sketch, perhaps is the first of this former French Far Eastern naval station to be published in Shanghai.

From a perusal of *XXth Century* one seems to gain the impression that its Editor is one of those scholarly European continentals, fluent in many languages and possessed of a background of international experience gained from world-wide wandering and close observation. He is Dr. Klaus Mehnert, born in Moscow of German parents, and educated in German and American universities. Before he came to the Far East Doctor Mehnert was professor of history at the Universities of California and Hawaii. His article 'Aloha', will give rise to a feeling of nostalgia for any reader who ever lived in the Pacific Islands of the Blest.

"Good Old Days" for the Foreigner in China—Are Gone

By WILLIAM HOSOKAWA

EVER since the first twinges of nationalism in Far Eastern peoples developed into articulate movement, the future of the Westerner in the Orient has been the subject of much conjecture. The White Man has been both developer and interloper, and final judgment on his handiwork must await a future date. At present when war rages, undue emphasis may be placed on the black side of his accomplishments at the expense of undoubted and unquestioned contributions to Far Eastern progress.

When every departing ship from Japan and China is booked to capacity with Britons and Americans, the question of the future of the White Man in the Far East is most pertinent. Will he ever return when wartime restrictions and credit freezing restores normal trade? Will there be a place for him in the economic life of the ultimate victor? Will he be able to regain the hold he once had in Oriental commerce?

Much, of course, depends on the shape of the peace that must come to these regions when the fighting is ended. But whether it be the uneasy armed truce that Versailles brought, or a settlement that will establish the foundations for true concord, one thing is certain: the era of Western privilege is gone.

"Good Old Days" Are Gone

No matter who wins the war in China the day of the commercial barons and their retinues who lived like feudal lords in a backward, benighted country is past. The Japanese demand recognition of their equality with the white peoples. Psychologists trace their excesses to this craving for recognition. The Chinese too have felt the hot urgings of nationalism and long before the present war they had tried to free themselves from such degrading shackles as extra-territoriality.

It is to the credit of both the United States and Britain that they have recognized China's wishes after all these years and have given assurance that extra-territoriality will be relinquished in due time. This alone, however, is only a symbol and no all-inclusive solution.

The trend against Westerners is easy to trace. In Manchoukuo, while consumption of American and other foreign products has mounted with the increasing purchasing power resulting from peace and progress, the part that individual American traders play decreases. In North China and the Yangtze Valley foreign commercial holdings are practically paralyzed while Japanese and joint Sino-Japanese enterprises under official permit are expanding rapidly.

Observers have no doubt that the results would amount to the same thing if it were the Chinese forces that held the upper hand. The safety of the Shanghai International Settlement has been threatened many times, not by alien invaders, but by the Chinese themselves when they sought to seize this rich bit of the foreign world clinging so tenaciously to China. Through many years it was the dream of every *tuchun* and every little Chinese warlord to win the great prize—to loot Shanghai.

While the Boxer Rebellion made the world conscious of China's hostility toward Western exploitation, there were a long series of incidents prior to that outbreak. And the records show that an impressive list of anti-foreign incidents have broken out since, not the least of them the anti-American boycott in 1905, and the anti-British boycott in 1925.

In the wake of civil wars foreign interests have been threatened by either victorious or retreating armies, most notably in 1927 when General Sun Chuan-fang was retreating northward following their defeat by Central China forces and was prevented from entering and looting Shanghai only by the action of foreign troops.

In both 1932 and 1937 when Sino-Japanese hostilities broke out, foreign troops were stripped for action, not against the danger of a Japanese invasion, but to defend the city against victory-drunk Chinese troops should they have overwhelmed the Japanese as they threatened to do.

Sinister Possibilities

Opinion as to the respective merits of the Chinese and Japanese cases was widely split even then, and those who supported Japan on the grounds that she was a Treaty Power defending the interests of Treaty Powers were not few.

There is little doubt among most Old China Hands that a triumphant China in this war would result in an intolerable wave of arrogance, insolence and incivility toward all foreigners by the masses of the people. They make this statement, not as a slight against the Chinese, but as an objective observation tempered by experience. They realize that there must be a natural reaction in that direction when suppressed desires and injured pride of a vast uneducated populace are given sudden relief.

An object lesson on how quickly the official and mass sentiment here can reverse itself is to be seen in the campaign of calumny against Britain which gained such momentum only a year ago when the Burma Road was closed in the face of Japanese demands.

A foreshadowing of the Japanese view toward the position of Westerners in her projected East Asia Co-Prosperity Sphere was seen in a recent editorial published by the semi-official Japan "Times and Advertiser" in Tokyo. The departure of foreigners, said the newspaper, "is an exceedingly important one, for it puts emphasis on the evolution of the Far East and on the final independence of the Orient." The "Times" contended that the Japanese have learned all that was essential and that foreigners have finished their part in the transition of the Far East.

Emphasizing that Asia must be kept for its native peoples, the editorial declared "the day of the foreigner in the East is gone. The day of exploitation of the Pacific States by Wetsern Governments likewise is nearly finished; it is for Far Easterners themselves to determine the time."

While asserting that there is no need for outside help, however, the "Times" stresses that "on the basis of equality, there always remains the open door of opportunity for newcoming foreigners. What applies to peoples also refers to States."

These words make it unmistakable that so far as the "Times" is concerned the exit sign has been posted for Westerners in Asia and that they are not wanted except on the basis of equals—no more, no less—of Asiatics. In theory this is a splendid ideal; in fact much of the friction that created so much heat during the past century in the Orient could have been prevented had Western peoples and nations come to these parts with the same point of view.

Portents of the Future

Outside of the question whether Japan will be able to carry out all her plans, it must be admitted that she does control vast and rich trading areas in the Far East and that she can and is developing this trade to suit her own ends. Under the ideals embodied for the still undefined "Co-Prosperity Sphere" it is to be presumed that here will be a happy hunting ground of commercial enterprise with resultant uplifting of the masses.

But little has been done so far from the viewpoint of established western concerns within this sphere to merit much optimism regarding the future. The deals of equal opportunity have not been carried out and huge Japanese monopolies and semi-official organizations have claimed practically all the profits. Japan is treading the perilous path of exploitation that provided such rich returns to 19th Century imperialists at the expense of the sweat and blood of less advanced peoples.

Evidence shows that Japan, a belated imperialist, is trying to apply 19th Century measures to the 20th Century when imperialism is no longer in favour. The sins that she commits are a doubly bad taste in the mouth of retired imperialists because of the similarity of methods employed, especially since the original imperialistic interests are now threatened.

Admittedly, there is little in the example of other nations to inspire more noble conduct in the Japanese when their opportunity to expand and grow wealthy has appeared —a hundred years late. There is a long list of restrictions, many still in force, which brought home to the Japanese that it is folly not to make the most of a good opportunity. In testimony against the doctrine of freedom of trade and equality of opportunity, there are volumes of regulations, reams of forms to be filled, miles of red tape to be untangled which through preferential tariffs commodity quotas, and trading blocs to protect vested interests from competitive encroachment.

Records of the Past

Trade figures show that France kept her colony in Indo-China as her own commercial preserve, just as the British monopolized rubber and tin and kept the Empire a tightly-bound trading bloc, just as the

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Konoye and Roosevelt

By ICHIRO IWATATE

WHILE diplomatic and journalistic circles all over the world are closely following with X-ray eyes the "exploratory" negotiations between the United States and Japan, the safest remark to make at the present stage of the talks is that they are still under way. Some "experts" say a standstill agreement has been reached between the two countries, the "usually trustworthy governmental quarters" authentically assert the negotiations are near a break down, and "circles close to those in the know" claim that there is no use of continuing the let's-talk-it-over parleys since the Japanese military will not accept American terms while the United States will not agree to any concessions contradictory to American traditional Far Eastern policy.

Comments that so far have found their way into the press are of a highly speculative nature and are mostly based on "circumstantial evidence," if not pure guess-work. This second-hand and third-hand information has failed to shed the light on the progress of the talks or penetrate the complete official black-out both at Washington and Tokyo. So, the safest thing to say at present is that the negotiations are being quietly continued behind a press tom-tom. The extreme caution shown by both sides testifies their eagerness to reach some kind of understanding to avert a war in the Pacific and the slowness of the parleys indicates that both parties are marking time. Both have ample reason. The recent "shoot first" order given to American naval forces is forcing President Roosevelt to concentrate his immediate attention and efforts to the Atlantic. Premier Konoye's primary aim is a speedy and satisfactory termination of Sino-Japanese conflict, and he wishes to prevent a spread of the European war to the Pacific.

The writer will neither make an addition to the 101 solutions to this international jigsaw puzzle nor reveal "startling inside information" as to the progress of the talks. He will confine himself to a comparative study of Prince Fumimaro Konoye and President Franklin D. Roosevelt, the two principal characters who share the international limelight.

A political writer in Japan once called Prince Konoye a democratic aristocrat and an aristocratic democrat, chiefly because of his high lineage and his phenomenal popularity. This remark also can be applied to President Roosevelt without the slightest contradiction. Both men were born with political silver spoons in their mouths and became popular leaders of their respective countries. Konoye now deftly guides the nation's ship of state heading his third cabinet since 1937, while F.D.R. is an unprecedented third-term president. The Konoye family has been at the head of the so-called Five Regent Families for some thousands of years, and the Roosevelts have two Presidents and four Assistant Secretaries of the Navy in their family trees.

From the first two months of their respective regimes, both Prince Konoye and President Roosevelt faced emergency situations. President Roosevelt was first elected on his pledge to wipe out the depression caused by unbalanced economic conditions both within the United States and throughout the world in the period following the first World War. He sought to overcome the domestic crisis by reorganizing the economic structure through reforms in finance, industry and agriculture. He was elected for the second time in a Democratic landslide in 1936 when the public sentiment was in favor of letting F.D.R. finish "the job he started." In 1940, Roosevelt was "drafted" in the face of a worsening international situation which was claimed to be too threatening to be dealt with by "inexperienced hands." He was elected to an unprecedented third-term presidency to "keep the nation out of the war and make the world safe for democracy." Prince Konoye was "drafted" in 1937 when he first assumed premiership. Being an influencial political figure popular in all quarters, Prince Konoye had been regarded as a sort of ace in the hole to be drawn upon when no other statesman could succeed. Immediately after the military putsch of February 26, 1936, he received the Emperor's command to organize a cabinet. On that occasion, he excused himself from the duty on the grounds of "poor health," and the premiership was given to Mr. Koki Hirota. However, under the two successive ministries, political and social unrest continuously increased. When the Hayashi cabinet resigned in May, 1937, the Sovereign again called upon Prince Konoye to take the helm.

As it would have been a virtual breach of duty to decline the Imperial invitation a second time, the Prince agreed to become Japan's 43rd Premier. However, the first Konoye cabinet was dissolved after lasting one year and seven months, during which the Sino-Japanese hostilities broke out. Prince Konoye resigned on the ground that the China Incident had reached a new stage which called for a new cabinet in order to refresh the nation's morales. The second Konoye cabinet came into power in 1940 when the international situation was changing rapidly under the impact of the World War II. Prince Konoye resigned from premiership for the second time in July, 1941, in order to "readjust and strengthen Japan's domestic front to meet the intensified international situation." For this very reason, the Prince was ordered by the Throne to form his third cabinet.

During these stormy periods, the two men guided their own countries with the help of a group of advisers—Brain Trusts. They usually surround themselves with "experts" to consult with. Common to these statesmen is the virtue of being good at listening. Having been a protege and contact man of the late Prince Kimmochi Saionji, last of the Genro, Prince Konoye had maintained close contact with political circles and had patiently listened to the opinions of all groups from academic university professors to nationalistic young army officers. President Roosevelt also knows the art of listening. The President's original Brain Trust, which played a vital part in the early stage of his New Deal administration, had been more or less disorganized, but he still retains close to him a group of advisers now headed by Harry Hopkins. Sagacity, genial disposition, culture and, above all, profound understanding —all these qualities won these two statesmen wide popularity among various types of people, and this definitely contributed to their political leadership.

Concidental is the death of the N.R.A., brain child of President Roosevelt's Janizaries, and a similar circumstance which confronted the Imperial Rule Assistance Association, created under Prince Konoye's New Deal. The two men have been accused of Red tendencies by those who bitterly opposed sweeping political and economic changes. The NRA was pronounced unconstitutional by the U.S. Supreme Court, while the Imperial Rule Assistance Association was subjected to a similar charge and was emasculated at the last session of the Imperial Diet this year. Though accused of being a Bolshevik, President Roosevelt actually has never come anywhere near basic Soviet principles. He merely introduced a plan and a system of national control to meet a national emergency, now common practice among world nations. In the case of the I.R.A.A., which was a product of Prince Konoye's New Structure Movement, it was designed to effect wide political, economic and social changes in order to streamline Japan's domestic structure so that she would be able to effectively meet the present crisis.

Although they are not radical as accused, both Konoye and Roosevelt unsuccessfully have tried to leave their own class. As soon as he moved into White House, President Roosevelt launched an intensive fight against the rich, his own class, only to wind up in compromise some years later. When he was thirty years old, Prince Konoye wanted to give up his aristocratic life, stating that his constitution could no longer stand the "burden" of a title. He insisted upon emigrating with his whole family to California. It took three days and nights for his relatives to dissuade him.

The two statesmen also have common ground in their foreign policy. In the first Roosevelt regime, the President announced the maintenance of a good neighbor policy in the western hemisphere. During the first Konoye administration, the Prince made his historic broadcast laying down three basic principles for Sino-Japanese co-operation. As President Roosevelt sincerely urged a good neighbor policy upholding the spirit of the Monroe doctrine, Premier Konoye proposed a far-sighted policy of Sino-Japanese co-operation, which was originally advocated by the Prince's dynamic father.

If the style is the man, then these two men are quite alike in their great simplicity of manner, such as are found among the high born more frequently than among those who have become rich. They are not the least pretentious and are straight forward in speech. They write their speeches themselves, and it appears that they ask for less collaboration than other leading statesmen. President Roosevelt is well known for his radio speeches. He has the perfect radio voice and speaks so personally that every listener feels that he alone is being addressed. Prince Konoye has the same talent. He uses simple words and avoids big and empty words so that every listener can understand him and feel close to him. Konoye and Roosevelt even have similar tastes and characteristics in dress. In clothes both achieve elegance in seeking comfort only. As a matter of fact, Premier Konoye is the first Japanese Prime Minister who manages to look comfortable in a cutaway.

In spite of these characteristics common to Premier Konoye and President Roosevelt, there are many others which draw a definite line separating them. Such characteristics are more or less attributable to differences between the two nations they represent rather than to their individual characters. For instance, one factor which explains President Roosevelt's popularity is his political showmanship often exemplified in his platform performance. His refined manners are as dramatic as the action of an accomplished actor on the stage. In any country, political showmanship is a prerequisite to a successful stateman, but in a democratic country like America, it is indispensable.

President Roosevelt fought his way to the White House through election, whereas Prince Konoye was appointed to his present office. Therefore important to President Roosevelt is his public address, in which he enthralls his listeners with his talent for oratory, his charming and carrying voice and his witty approach to a subject. In the case of Prince Konoye, his life has been passed mostly in convincing private conversation. Speaking of differences in their dispositions, prophetic emotions drive Prince Konoye far more greatly than they do President Roosevelt. While the feeling of the continuous enjoyment of power seems to dominate Roosevelt, Prince Konoye's noted indifference to power gives many headaches to those who are anxious to keep him at the nation's helm.

The World War II has created a new fashion, that is, meetings and conferences among leaders of world nations. Chancellor Hitler meets Premier Mussolini and President Roosevelt meets Prime Minister Churchill. The latest in vogue is the tripartie conference at Moscow. However, the entire world is paying more attention to the Konoye message and the following parleys between the United States and Japan than it did to the above-mentioned meetings and conferences. The reason is simple. These meetings were held by those in the same camp. They were bound to reach agreement or end up in a manner satisfactory to the conferring parties. On the other hand, the destiny of two great nations and the future of the entire Pacific Basin may depend on the current U.S.-Japan negotiations being led by the two men who are equally clear-headed and are well-matched in wit, ability, political tactics and diplomacy.

Japan Gets Indo-China Phosphorite

A large Japanese corporation to develop a phosphorite mine at Laokai in French Indo-China will be established shortly, according to the *Asahi*, of Tokyo.

As to the development of the phosphorite mine at Laokai, the best mine of its kind in the French colony, capitalists in Japan have been negotiating with the French owners of the mining lots. With the negotiations having been concluded recently, Japanese capitalists have decided to set up a Y.1,000,000 corporation.

The biggest shareholders of the projected corporation will be the Dai Nippon Phosphorite Company, the Mitsubishi Trading Company, and Kichinosuke Ehara and Seinosuke Inosaka of the Japan-China Marine Transportation Company. The corporation is expected to commence business by this fall.

The phosphorite yields of the mine will be exclusively handled by the Mitsubishi Trading Company. The ore will be transported from the French colony to Japan by the Mitsubishi Trading Company's ships, and then sold to the Dai Nippon Phosphorite Company. It is said that in the future, the French owners of mining lots will be invited to join the corporation as the Agriculture and Forestry Ministry plans to make it a joint undertaking of both Japanese and French interests.

The only question still left unsettled regarding the establishment of the new corporation is how to dispose of the mining lots held by the South Seas Development Company as well as by the affiliates of the Formosan Development Company, says the paper.

The paper also states that much attention is being directed to this project as Japan can no longer expect any large supplies of phosphorite from America hereafter.

WAR

The Caucasus and Transcaucasian Republics

By R. C. Ropes

(U.S. Foreign Commerce Weekly)

AS the center of the national petroleum production, the small section of the Union of Soviet Socialist Republics comprising the North Caucasus District and the Transcaucasian Republics is of supreme importance to the country. Accounting for about 80 per cent. or more of the Soviet Union's whole output of oil, the value of the Caucasus area is out of all proportion to its size and population.

By the term "the Caucasus" is usually meant the strip of land between the Black Sea on the west and the Caspian on the east. It borders in the south on Turkey and Iran, and on the north reaches almost to the foothills of the Ural mountains. The total area of this strip is 137,180 square miles.

The part north of the Caucasus range, which stretches from sea to sea, is divided into the Krasnodar and Ordzhonikidze Krais (territories), the Dagestan autonomous republic, and the small autonomous oblasts (provinces) of Kabardino-Balkaria, Karachai, North Osetia, Cherkessia, and Checheno-Ingushia. South of the mountains are the three republics of Gruzia (Georgia), Azerbaidzhan, and Armenia. Formerly these were united in the Transcaucasian Federation, but in 1936 they became full-fledged constituent republics of the Union.

The Caucasus mountains form a ridge, with peaks as high as 18,470 feet, from the Black to the Caspian Seas. Within this range are many sheltered, rich valleys, mountain rivers, and one historic swamp that of Colchis, now being drained and made productive.

North and south of the range and foothills the land is flat and well-watered. The northern steppes are one of the richest agricultural areas in the Union. The climate of the southern slope of the mountains is subtropical. Abundant rainfall makes possible the raising of many exotic fruits and plants.

The inhabitants of the Caucasus, one of the greatest national melting pots in the world, represent a bewildering mixture of races, nationalities, languages, and customs. Every migration of peoples westward from Asia has left traces of its march through this link between Europe and the Semitic, Mongolian, or Turkic countries from which these peoples traveled. There are even descendants of the Crusaders who stopped on their way to Jerusalem, and stayed in the mountains.

One result of this multiplicity of nationality is the large number of languages used by the natives and permitted in schools, theatres, legislative assemblies, and the local press. Another is the list of autonomous republics or areas included in the territory of the large administrative divisions. In addition to those mentioned in the North Caucasus, the Gruzian Republic, has three, and the Azerbaidzhan Republic two, of these smaller national units.

The population of the North Caucasus on January 1, 1933, was listed as 3,922,700, of which 3,136,400 were rural, and 786,300 urban. That of the Transcaucasian republics, as of January 17, 1939, was as follows:

Republic	Total	Rural	Urban
Azerbaidzhad S. S. R. . .	3,209,700	2,049,000	1,160,700
Gruzian S. S. R.	3,542,300	2,475,700	1,066,600
Armenian S. S. R.	1,281,600	915,200	366,400

Agricultural is the chief occupation of the people of the North Caucasus. No industries of consequence are to be found except the oil wells and refineries at Grozny and Maikop. The southern republics are more and more entering industry, as factories and mills multiply, although agriculture remains a dominating occupation in this district also.

Industries in the Caucasus

The oldest and largest industry in both the North Caucasus and the Transcaucasus is the extraction and refining of petroleum drawn from the huge reservoir believed to underlie not only this whole district but also an area extending in a belt northward to the Arctic Ocean. Known since the dawn of history, the oil wells of the Caucasus have been producing steadily for some 80 years, with no sign of depletion of reserves. Predictions of the drying up of Baku sources, for example, have been belied in recent years by the tapping of deeper horizons resulting in many gushers.

The largest producing area lies along the western shore of the Caspian Sea, north and south of Baku, where the largest refineries are located. Other wells lie west of Baku, and some have been drilled in the Caspian itself, off the Apsheron Peninsula. The northernmost coastal field is at Makhach Kala. West of this last is the large Grozny field, and still farther west is the Maikop field. Baku is connected by a double pipe line with Batum on the Black Sea. Makhach Kala, Grozny, and Maikop pipe their product to Tuapse, on the Black Sea, or to Trudovaya in eastern Ukraine. There is also a field under development in the Shirak Steppe in the Gruzian S. S. R.

Soviet geologists claim for the U. S. S. R., on the basis of estimates of the potential resources of areas not yet explored, the largest oil reserves of any country in the world. Immediately accessible reserves are placed as of January 1, 1939, at 4,679,300,000 metric tons. Of this total a large part may be assigned to the fields listed in the Caucasus.

Baku output has steadily risen from 7,669,100 metric tons in 1913, to 22,100,000 in 1938, the latest figure available. It is probable that since 1938 there has been a drop in production, owing to slowness in bringing in new or deepened wells.

Grozny output was about 3,000,000 tons in 1935; since that date there has probably been a decline here also. But the Caucasian oil fields have contiuued to provide from 80 to 90 percent of all the crude petroleum produced in the U. S. S. R., although the share of the other, newer fields is expected to increase rapidly in coming years. Total production for the area is about 30,400,000 metric tons or 212,800,000 barrels, about as much as is annually produced in California.

Cities in the oil fields have increased in population as industry expanded. Baku grew from 453,000 in 1926 to 809,000 in 1939, and Grozny from 97,000 to 172,000. New housing has been erected for the workers, parks and boulevards laid out, and many new schools, hospitals, theaters, and other community buildings have been constructed. New or expanded public utilities have also been added.

The next Caucasian natural resources of importance is manganese ore, from the mines at Chiatury near the Black Sea in the Gruzian S. S. R. Known and worked before the revolution, these high-grade deposits have been equipped with modern mining and concentrating machinery. In 1937 1,650,000 metric tons of 50 percent ore were produced as against 965,800 tons in 1913. Most of the output of these mines goes in normal times into exports. The United States steel industry uses large amounts of Chiatury ore. A ferromanganese plant has been erected in a nearby town, Zestafoni.

A third resource, copper, from old mines at Alaverdi and Zangezur, in the Armenian S. S. R., is now being recovered on an increasing scale. The town of Kafan, where the ore of the latter mine is smelted, has grown in 12 years to five times its former size. There are also three coal mines, at Tkvibuli and Tkvarcheli in Gruzia, and Khumara in the North Caucasus. The second of these produced 2,340,000 tons of bituminous coal in 1934. Other minerals and metal deposits that are being or will be worked include magnetite, bauxite, pyrites molybdenum, arsenic, and barites.

New industries developed in recent years in the Caucasus district are: Manufacture of carbide of calcium and, from it, synthetic rubber, at Yerevan in Armenia, steel and cement manufacture. In the larger cities consumption goods, such as boots and shoes, textiles, and ready-made clothing are also produced. Packing, oil-pressing, and canning plants have also been erected. Manufacture of a special Caucasian cheese has recently grown rapidly. Wine-making and tea-processing factories are other recent additions.

Hydroelectric Developments

The Caucasus Mountains are the source of many streams and rivers rising in the glaciers and snowfields, and flowing into the Black or Caspian Seas. These waters are a potential source of hydroelectric power, for industrial, transport, and domestic use, that is rapidly being realized. In the Gruzian S. S. R. two large stations have been built on the Rion and Kura Rivers, with their power lines interconnected with those of the coal-fueled station at Tkvarcheli.

Another project is on the Zanga River in Armenia, flowing out of Lake Sevan, a mountain lake 6,000 feet high. Over a 60-mile stretch nine hydroelectric stations, aggregating 500,000 kilowatts, are to be built. Of these, one is already in operation and a second is nearing completion. After turning the turbines the water is used to irrigate 247,000 acres of barren land in the Arax valley, where cotton and grapes will be planted. Other smaller stations have been built or planned.

Railroad Transport

The Caucasus area is served by two railroad systems, one running from Baku northwest to Restoy-on-Don, via Grozny and Ordzhonikidze, and the other from Baku westward to Tbilisi and the Black Sea. An extension north along the shore of the Black Sea, affording a connection between Tbilisi and the North Caucasus at Armavir, was begun some years ago and may now be completed.

From Tbilisi there is also a line through Armenia to Tabriz in Iran. A second line is now under construction to connect Baku with Tabriz. The railroads running out of Baku are electrified for a considerable distance. Each year sees an extension of electrification.

The Black Sea road will connect the numerous mineral spring spas and the health resorts that line the coast from Batum northward, hitherto accessible only by branches from the North Caucasus railroad, or by roads along the coast. This system of mineral spring resorts, well developed before the revolution, has been greatly expanded since 1917.

Labor unions and Government agencies have built many new hospitals, sanitariums, and rest homes for their workers and employees. Both the Federal and the local governments have spent large sums on roads, parks, and buildings.

Agriculture

The two sections, north and south, of the Caucasus area differ radically in their forms of agriculture. The northern part, as previously mentioned, is an extensive grain-growing district, whereas in the south cotton and subtropical crops predominate.

The total planted area in the North Caucasus in 1938, the latest year for which statistics are available, was 19,939,240 acres, of which 13,677,479 were sown to grain. The flat steppes are well suited to the extensive cultivation by machine that has been adopted as the best system for the collective and States farms of this area. Some of the largest of the latter, "grain-factories," are located in the North Caucasus.

Large-scale farm machinery is owned and operated by the machine-tractor stations, of which there were in 1938 a total of 351, mostly in the Krasnodar and Ordzhonikidze Krais. Equipment included 30,463 tractors and 10,903 combined harvesters, besides many trucks and automobiles, and tractor seeders and other implements. These machine-tractor stations served 5,736 collective farms, for which they undertook all the heavy farm work and hauling, being paid in kind by the farms at fixed rates.

The State farms, of which there are over 100 in this area, own their own machines of all kinds. The North Caucasian farms include the largest units in the country of this type, and plant to grain, judging from 1935 records, almost as large an acreage as all the collective farms.

Large stock-farms, as adjuncts to raising grain are also kept. In 1938 the number of cattle on both State and collective farms in the North Caucasus was listed as follows: Horses, 777,200; cattle, including buffalo, 3,128,500; hogs, 1,435,300; sheep and goats, 5,977,800. In number of horses, cattle, and hogs, the Krasnodar and Ordzhonikidze Krais led. Little Dagestan A. S. S. R., where sheep raising in the mountains is traditional, showed 1,680,800 head of sheep and goats, against 2,721,000 in Ordzhonikidze; a section twice as large. Much lower numbers are found in the other sections. As a result of the Government policy for several years in assisting collective farms to acquire and raise livestock, it is probable that the animal population of the North Caucasus is now very much larger than it was in 1938.

The principal grain raised in the North Caucasus is wheat, 1,124,700 metric tons in 1935 of a total grain crop for the district of 2,589,100 tons. Rye, a crop planted for many years in this area, is second in importance, followed by barley and corn. Sunflowers are also raised over a considerable acreage, being valuable for the oil from their seeds, and as fodder. Cotton plantings in 1935 covered 350,635 acres. The crop of seed fiber amounted to 29,670 tons.

Agriculture in Transcaucasus

The statistics for agricultural development in the three Transcaucasian republics in 1938 show 8,944 collective farms, and 145 machine-tractor stations. The latter operate 10,086 tractors and 1,118 combines. Since then the machine equipment has been increased, and many special attachments have been added to work certain crops. Cultivated acreage of the collectives has also been expanded by draining and irrigating land previously swampy or arid.

Grain crops are comparatively insignificant, only wheat and corn being planted to any extent. Cotton, with a constantly increasing planted area, is the most important crop. In the southeast new irrigated cotton lands are coming into use, having already spread into the Kura lowlands of Azerbaidzhan. The latter district also raises alfalfa, wheat, and rice and is particular well suited to stock raising.

Wheat in the Transcaucasus covered 2,519,000 acres, and corn 986,900 acres. The crop of the former was 819,500 metric tons. The cotton crop of this district amounted in 1935 to 145,660 metric tons of seed fiber, but has greatly increased since then. Over 80 percent of the crop was raised in Azerbaidzhan in 1935, but now other districts contribute a larger share of the total. Tobacco, another important industrial crop here, covered 64,000 acres in 1935, an acreage since increased. The bulk of the Caucasian tobacco is grown in Gruzia, the best coming from Abkhazia.

Although the Transcaucasus has no large areas suitable for cattle-grazing, the Government policy of encouraging livestock raising, to satisfy the local demands for meat and animal products, has been effective here as elsewhere, and cattle are on the increase. Statistics for 1935 for the three republics recorded 421,200 horses, 4,001,800 hogs, and 5,591,000 sheep and goats. The latter two have traditionally been raised here for their fleeces and hair, and for their skins. It is safe to assume that since 1935 there have been large increases in livestock, except in the case of horses, which have increased more slowly.

As previously mentioned, the Caucasus, because of its location and topography, has long been found suitable for the raising of subtropical trees and shrubs. Formerly these were planted experimentally, but in recent years have been fostered by the Government, and have become important producers of fruit, leaves, and essential oils.

These plantations are chiefly located in two districts particularly favored by climate and rainfall, the Kura lowlands in Azerbaidzhan, and the Colchis area in Gruzia. In the first, the annual precipitation is 46.8 inches a year, providing conditions suitable for tea growing and for citrus fruits. Of the latter, tangerines and lemons are the most planted. There are also plantations of tung-oil trees, of bamboo, and of eucalyptus.

In the Colchis agricultural area, which is expanding each year as the swamps are drained, the precipitation averages 97.5 inches annually. Because it lies along the Black Sea coast, subtropical and even tropical plants can be raised. Tea, citrus fruits, and tung-oil trees are grown on a large scale by collective and State farms. In 1937 the acreage under tea had reached 111,640 acres, and 34 factories had been erected to handle the crop. Citrus fruits covered 25,000 acres in 1938, and experimental plantings of grapefruit had been proved successful.

First industrial production of tung-oil, amounting to hundreds of tons, was recorded in 1937. Planting and output have continued to increase each year since.

A new industry for Russia, the raising of essential-oil plants, has grown rapidly in recent years in this favorable location. Listed as raised in commercial quantities are: Geranium, sage, lavender, lemon sorghum, Parma violet, the native Kazanlyk rose, and others. These plants covered 412,700 acres in 1938. The flowers, leaves, and roots are treated in 25 oil extraction factories. Eucalyptus, cinchona, and eucommia trees, and other nut or fruit-bearing trees from Japan and tropical areas have also been acclimatized.

The agricultural picture of the Transcaucasus would not be complete without mention of the extensive vineyards, producing the long-famed Caucasian wines, and of the many kinds of hardwood timber that grow on the slopes of the mountains. Kakhetia, the Gruzian grape-growing district, has in recent years added champagne to its former varieties of wine; and the Nakhichevan A. S. S. R. in Azerbaidzhan has also extensive vineyards. Caucasian timber, including Circassian walnut and Abkhazian chestnut, has for many years been known the world over, and has been an important export product.

Shanghai Markets In Panic

At least five native banks in the International Settlement of Shanghai declared bankruptcy following the announcement by Nanking's Ministry of Finance on October 8 prohibiting the exportation and re-export of cotton yarn, cotton thread and cotton-knitted articles.

News of the latest Nanking restrictions immediately created a sensation in the Shanghai Cotton Yarn Exchange and the Gold Bar Exchange markets. The markets were forced to stop quotations because of the sudden and heavy drop in prices.

The recent fluctuation of prices were reported to have cost Shanghai speculators several million dollars.

One of the leading native banks generally known to have been backed up by Hongkong financial circles, lost three million dollars in one day of trading.

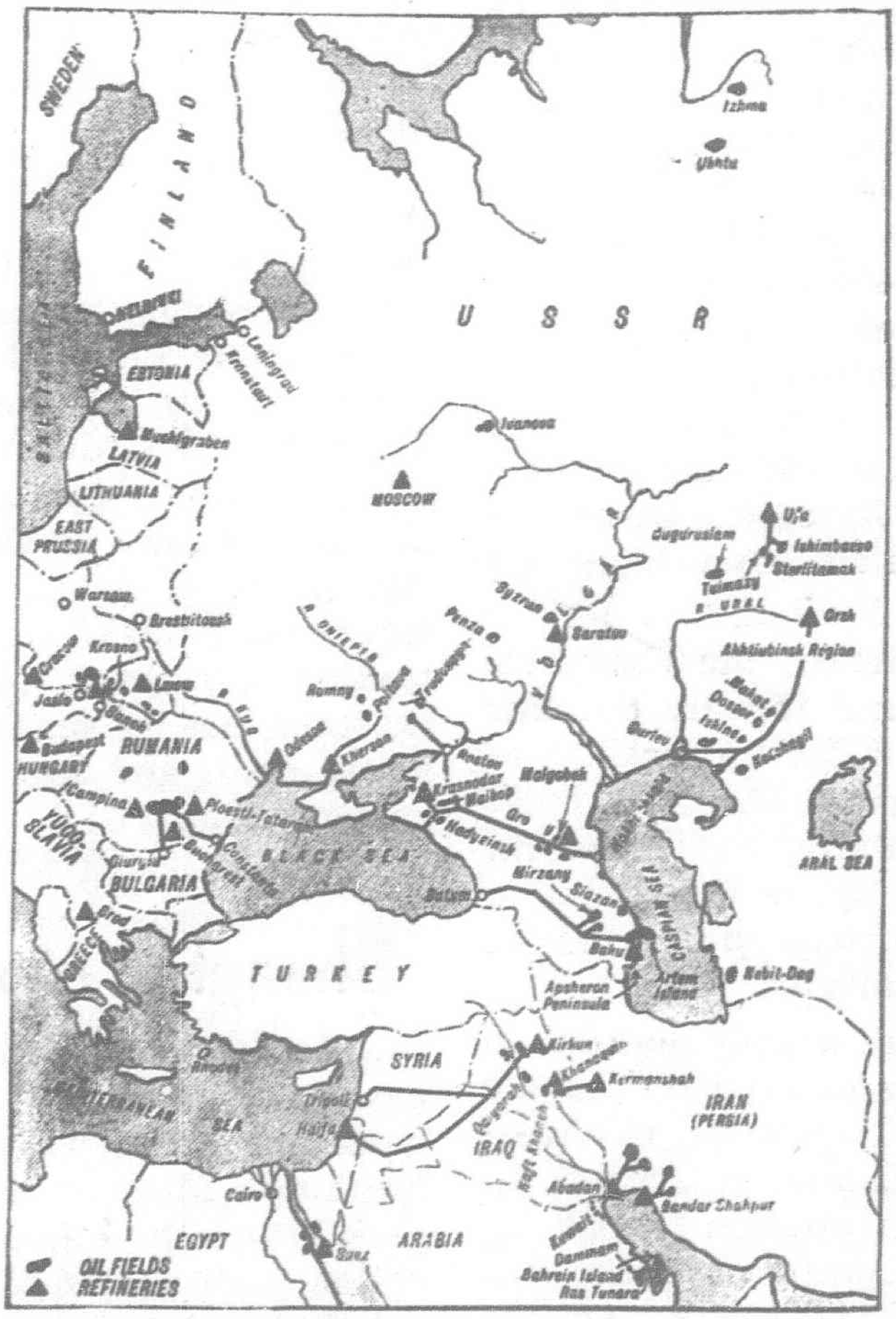
OIL

The Oil Situation In Russia

By "OILFIELD ENGINEER"

(The Engineer)

ALTHOUGH notes on the oil production in Russia were included in an article entitled "The Oil Situation in the Middle East," published in the Engineer on May 23rd, the opening of the Nazi offensive —fully anticipated in the article mentioned —renders a full survey of the Russian oil industry very interesting.



Oilfields In Russia and The Middle East

The total production of crude oil in Russia during 1939 was 30,000,000 tons —and the inadvertent error in stating Russian production, the article of May 23rd, as 4,433,000 tons is the subject of a correction in these columns.

Only a slight increase in output is estimated for 1940, owing to lack of modern drilling equipment with which to develop many areas which have been thoroughly checked by geophysical and geochemical methods as being potential oil-producing territory. It is this lack of good drilling equipment which has been one of the main reasons why the Nazis have not been able to obtain greater supplies of oil from Russia. Another reason, fully discussed later in this article, is that transportation facilities from Russia towards the European countries occupied by the Nazis are insufficient to carry greater volumes of oil.

The main thought in the minds of many people, however, when hearing of the German attack on Russia, has been whether the Nazis will gain further supplies of that lifeblood of modern war—oil. Careful consideration of this question results in the conclusion that although some small quantities of oil may fall into their hands, there is little or no possibility that the occupation of the main oil-producing areas of the Caucasus will result in Hitler gaining suffiient quantities of oil to enable him to carry on the war for an indefinite period.

Again we would stress the fact that crude oil is useless until it is refined, and that refineries are very easily destroyed. Invasion is no new experience for Russia, and the main reason for the retreat from Moscow by "invincible" Napoleon was that the retreating Russians laid the fertile country waste. The Russian forces—fully mechanised—and appreciating to the full the fact that the Germans must, over the majority of the 1,800-mile-long fighting front, bring up oil supplies over long distances, will make a special point of destroying every oil storage depot, every refinery, every oil well, together with equipment, which may fall into the hands of the Nazis, no matter how swift may be the advance of the Panzer divisions.

The lesson of France, when the Germans were able to advance with the aid of seized petrol and oil supplies, has not been lost on the Russians, who, it must be admitted, number among their virtues the ability to learn from others.

Some reports have stated that there are "vast stores" of petrol and of lubricating oil, together with diesel oil, scattered throughout the mechanised farms of the great Ukraine and Bessarabia cereal regions. Doubt is cast on such assertions by a report —now confirmed—first appearing in the *Schweizerische Zeitung* to the effect that an agreement to furnish 30,000 tons of petrol was signed between the Soviet Government and some Roumanian oil companies in March of this year. The petrol was required for Bessarabia and the Ukraine, and as soon as the agreement was signed the Russian tankers, "Zergo" and "Moscow," commenced loading at Constanza. It is considered that the Russians, fully aware of the fact that an attack by Germany might be made at any moment, have deliberately kept their oil storage in vulnerable areas to as low a level as possible, and the purchase of petrol from Roumania, for use in districts very easily reached by sea shipments across the Black Sea from the two great oil ports of Batoum and Tuapse, would certainly indicate that the Russians have little in the way of oil products to spare for export to Germany.

The quantity of over 30 million tons of oil per year is admittedly considerable, but the rapid growth of the use of Army mechanical transport, of the Russian Air Force, and of industries, as well as of domestic transport, calling for great supplies of oil products, makes this huge volume of indigenous oil output barely sufficient for domestic consumption, and for the building up of sufficient reserves for the great armed forces of the Soviet.

Even had transport been available for the shipment of larger quantities of oil to the Axis, it is obvious that the Russians would have had to sacrifice some of their own requirements to have shipped more than the estimated 500,000 tons per year of oil products to Germany.

Russian crude is generally of very high quality, producing a good lubricating oil and certainly better-grade petrol than can be obtained from the German synthetic oil plants or from Roumanian crude oil. It is believed that the exports from Russia to Germany covered mainly lubricating oil, of which vital commodity the Axis has been very short for many months.

Transportation

The question of transport to Germany is well worth detailing, as, with the destruction of refineries in Russian territory overrun by the Nazis, the only way in which Hitler can hope to use the great quantities of crude oil which may be available will be for the crude to be sent to European refineries.

The German manufacturers of refinery equipment are hard put to it to cover requirements for repairs to the Axis refineries so thoroughly battered by the R.A.F. during the past year. There is, therefore, little prospect of the Nazis being able to transport refinery equipment over vast distances to occupied oil-producing areas, and thus refine the crude oil on the spot.

This point is well worth noting, as it means that the advancing German armies—should they succeed in penetrating deep into Russia—will have to rely on ever-increasing lengths of lines of communication, to keep their mechanised forces and *Luftwaffe* supplied with oil products.

In the article of April 18th regarding Roumanian oil, it was pointed out that although over 14,000 tons of oil products were produced in that country per day, less than one-half of this quantity could be transported to Central Europe, as the peacetime exporting point on the Black Sea, Constanza., handled 85 per cent. of the total oil products.

The transport situation in regard to Russia is very similar. Exports of oil and of oil products, which rapidly dwindled during the past few years owing to increased domestic demand, and inability to boost crude production, were made mainly from Batoum and Tuapse, both Black Sea ports. The map shows Batoum to be connected with the great Baku-Azerbaidjan oilfields by pipe line. There are actually two pipe lines connecting Baku with Batoum, one carrying crude oil and the other used for petrol refined in the Baku plant. Tuapse is at the end of the pipe line system commencing on the Caspian Sea at Makhachkala, and traversing the great oil belt at Grozny.

Both these ports were, of course, invaluable for the transport of oil across the Black Sea to Odessa, where there is a refinery, and to Kherson, a few miles from the Black Sea, on the banks of the River Dnieper, where another refinery is situated.

The railways of Russia—considered by some authorities to be overloaded to three times the traffic normally carried on British or American lines—can only handle part of the oil traffic from the Caucasus, the new fields of Romny and Poltava in North-East Ukraine, the Emba district, and from the Bashkiria and Izhma-Ukhta oil regions of the Ural-Volga territory. According to published estimates, railway tank car capacity on the Russian system amounts to around 500,000 tons, and the distances to be traversed, over crowded lines, must limit the annual oil tonnage carried by tank cars.

It is the inland waterway system, very highly developed, which carries the main load of oil supplies for domestic consumption, and those previously sent to Germany. Only two railway lines connect the oil areas of Russia with Eastern Germany, the route from Odessa *viâ* Lemberg, and the line from Rostov-on-Don, *viâ* Kiev and Lublin to Warsaw and East Prussia.

One waterway is up the River Bug to Brest-Litovsk, and another is up the River Dnieper, by canal to the River Pripet, and thence to Brest-Litovsk. These are the only routes by which river oil transport towards Germany could be made but they, like other Russian waterways, are frozen for almost six months of the year, and capacity is limited. Other water routes, for domestic oil supplies, carried by the Russian river tanker fleet estimated to have a total capacity of nearly 600,000 tons, are up the rivers Don, Volga and Ural. The Volga route, starting from Astrakhan on the Caspian Sea, goes *viâ* the Gorki canal, and the northern waterway network, to Leningrad, and thus serves the Baltic States, now part of the Soviet Union.

The comparatively long distances over which the river tankers and barges must travel, and the open season of not much more than two months, restricts the annual carrying capacity of the Soviet oil fleet, especially when one considers that an average round trip takes nearly two months.

It is therefore not difficult to see that the Nazis—should they succeed in occupying important crude oil-producing areas in the Caucasus—must also capture most of the river fleet intact, if the crude is to be transported to Germany for refining. It is possible that efforts may be made to ship crude across the Black Sea to Roumanian refineries, now operating at less than one-half capacity, but the difficulties facing the Nazis in transporting oil supplies in Roumania have already been fully detailed in these columns.

Lemberg Oil

There is one oil area, under Soviet control, which may result in the Nazis gaining fresh supplies, and that is the former Polish oilfield region of Lemberg—reported to be the object of fierce German attacks. Most of the 7,000 tons per day of crude oil—of good quality—produced from former Polish fields comes from many hundreds of small wells in the Lemberg area, in which there are also many refineries. The comparatively great number of producing wells here will be an obstacle in destroying all crude oil production near Lemberg, even though the refineries may all be demolished by the Russians, should they be forced back.

Crude from the Lemberg distrct will not have to be transported very far to refineries in Central Germany—should these plants not be destroyed by the reputedly formidable Red bomber force. This is the only point where the Nazis can hope to gain crude oil which can be of any real service to them in the prosecution not only of the Russian campaign, but of the war in general.

The surplus Roumanian products are, of course, of considerable advantage to the Germans in their attacks on the southern part of the long fighting line, but successful advances will mean lengthening lines of communication, and increasing difficulties in the supply of oil products to forces confronting opponents far more formidable than the Poles.

The Russians have planned their strategy towards the holding of a line in the Ural region, should they be driven back behind the River Volga. War industries, and vast supplies of oil products, have been concentrated in this comparatively remote area. In line with this strategy, the oilfields of the Ural-Volga area have been fairly well developed to provide a steady supply of oil products in the event of war against Germany.

The Caucasus

The main oil-producing area is still in the Caucasus, but the details given show that occupation of this area does not necessarily mean that the Nazis are able to use the crude oil which may fall into their hands. Increasing domestic requirements, during the past few years, have called for intensive exploitation of the Caucasian fields, many of which were great producers long before the last war, during which so many British oil companies operating in Maikop, Grozny, and the Baku district were dispossessed. Deeper sands have been found in many of these oil fields, especially on the Apsheron Peninsula. The structure was traced to Artem Island, in the Caspian Sea north of Baku, where considerable drilling has been done by rigs situated on the coastline, erected on special barges, or on substantial piling structures. By means of "directional drilling" rigs located on shore can penetrate formations lying beneath the sea bed, the drilling string being deliberately and carefully turned off, at a predetermined angle, and at a specified depth, by this now widely practised method.

The same sand, developed at Artem Island, has been found at Ilyich Bay, which is close to Bibi-Eibat, a name familiar to many with former interests in the Kaku area. It is reliably reported that a well at Ilyich Bay was drilled to a depth of over 7000ft. last year, with an initial production of more than 200 tons per day.

This success proved up a considerable area along the shores of the Caspian Sea, and drilling operations have been carried out not only along the shore line, but also on rigs mounted on piling set more than a mile from the coast.

The Baku area comes under the main area named Azerbaidjan, controlled by one of the many Soviet Oil Trusts organised to handle the many vast oil-field districts. Further recent successes in Azerbaidjan are reported at Kala, and in North Surakhany, where a very high-grade crude—well known to oil men as "Surakhany White Crude"—has been discovered in deeper sands.

Siazan, on the Caspian Sea, is a comparatively new producing area of the Azerbaidjan Oil Trust. Reports state that the area is so vast that a new oil trust is being organised to handle the district. Crude with a very high petrol content has been found at Siazan, after exploitation work dating back to 1928.

Farther north in the Caucasus, Grozny is the center of oil activity. Very steeply inclined formations retarded deeper drilling in this area, but new and ingenious drilling methods, based on "directional drilling," have enabled successful wells to be sunk to new low levels in a strata reported to be almost perpendicular. A very important new field at Oisunger, 40 miles east of Grozny, is reported, with a well producing 300 tons of high-grade crude oil per day from a depth of 5000ft. Being near the Makhachkala-Grozny-Tuapse pipe line, this new field has an outlet for the crude now reported to be produced from several good wells.

The main point of interest in Russian oil production is the Ural-Volga area, which will play a very important part in the war between Germany and Russia. Ivanova, near Moscow, and Penza, west of the Volga, were new fields opened up as the result of a producing structure found at Syzran, on the River Volga. A refinery has been erected at Syzran, on this most important waterway.

Between the Bashkirian area, which includes the important fields of Tuimazy, Sterlitamak and Ishimbaevo, linked by pipe line with the refinery at Ufa, and Syzran, a new oilfield at Buguruslam has been found. Reports state that considerable production of a good grade of crude has been found at very shallow depths, and that the producing area is considered to be very extensive.

The Emba region, near the mouth of the Ural River, in the southern part of the great Ural-Volga area, includes very productive fields at Iskine, Dossor, Makat, and Koschagil. A pipe line running from Gurlev, at the north end of the Caspian Sea, into which the River Ural runs, connects the Emba region with Orsk, a refinery town, near which the fields of the Akhtiubinsk area are also linked.

Ukhta and Izhma, up near the Barents Sea, are believed to be very important oil and gas producing areas, which materially assist in meeting the demands of the new industrial area which has sprung up in the Ural region.

In the Ukraine, oilfields at Romny and Poltava are now well established, and indications go far to show that North-Eastern Ukraine is likely to become one of the many important oil producing regions of the U.S.S.R.

Intensive surveys of the mineral wealth of the Soviet Union have resulted in oil being discovered at Nebit-Dag, in Turkmenistan; at Uzbegistan, in Mid-Asia; Tavdinsk, Siberia; Tolbinsk, Yakutia; Ayano, Sea of Okhotsk, as well as in many other areas. The domestic requirements of a Soviet Russia much more highly mechanised than at present, seem to be well covered by present and potental oilfields, and every credit must be given to the Russian Government for the manner in which hundreds of young engineers have received thorough training in all branches of the petroleum industry.

It is only the stupidity—not unknown outside Russia—which resulted in abortive efforts to employ the heavy industry for the production of equipment for oil drilling and refining, instead of purchasing such equipment from the home of modern petroleum development—the United States—that has retarded a more rapid expansion of the Russian oil industry, the eventual potentialities of which can only be the subject of speculation.

ECONOMICS

Economic Condition in Japan

THE annual general meeting of the Yokohama and Tokyo Foreign Board of Trade was held on June 27, 1941 at the office of the National City Bank of New York, Yokohama, Mr. Kern presiding. In the meeting, the Chairman in his address gave a clear picture of the economic condition in Japan during the present time of war. The Chairman's address, in part, follow:

With the suppression of ever so many statistical data, and with the restrictions on what one may say, or write, without violating the Secrecy Law, it has become impossible to give an accurate picture of economics of Japan as a whole. Therefore, our report cannot be as explicit as in former years, and the following is submitted in order to give some indication of certain matters of general interest.

During the course of 1940, it became of paramount importance for Japan to mobilize national resources with the intention of building up a state of high organization for national defense and also in an endeavour to create a sphere of co-operaton in the Far East.

Reflecting the uneasy international situation, Japan made little advance in its foreign trade. Industrial activities slowed down to some extent during the second half of the year on account of prevailing conditions of distribution of materials, labour and power.

The economic control of production, distribution and consumption was strengthened. The manufacture and sale of luxuries in Japan was prohibited; legal maximum prices were introduced as well as a rationing system over an increasing number of daily necessities, including rice. The position of some small and medium sized merchants, Japanese and foreigners, and of a number of small and medium sized manufacturers has become somewhat difficult.

Japan's foreign trade has been considerably affected by the combination of various factors, such as strengthened export and import controls abroad, various economic measures adopted by a number of countries, hindrances surrounding the use of Sterling, instability of the same during early 1940 and later intensified blocking thereof, in addition to difficulties of transportation facilities.

Business, generally speaking, has experienced greater handicaps, partly because of the growth of various "Kumiai" (Associations), who with their control of business policies, are apt to add to the prices, apart from the fees levied, wasteful cost in time and labour.

Since the outbreak of the European war, Overseas markets for Japanese goods have changed remarkably. The figures for the Empire of Japan, which include Korea, Formosa and the South Seas Islands under Mandate to Japan have been as follows:

		Increase over 1939	
Exports	Y.3,972,400,000	Y. 39,480,000	1%
Imports	Y.3,709,035,000	Y.581,574,000	18.6%
Total	Y.7,781,435,000		
Favourable balance		Y.263,365,000	

During the first half of the year as compared with the same period of 1939, Exports registered an increase of 24.9% against an advance in Imports of 16.7%. It reflects a pronounced slowing down of exports during the second half of 1940.

Japan has made a special effort to develop its foreign trade in East Asiatic and Latin American countries. The increase in 1940 however, was far more pronounced with the Kwantung Province and a portion of China.

In regard to trade among Yen bloc countries, the Government endeavoured to regulate the unbalanced growth of its trade on the basis of a policy of supplying those countries with manufactured goods which they require, in exchange for important raw materials. The control of this trade was carried out from September 1939 under the Yen Bloc Export and Import Commodities Control Law; it was chiefly confined to restrictions in the volumes of commodities exported. These restrictions created in turn an unfavourable effect on the economic conditions of this country, so that on September 2, 1940, the Yen Bloc Export and Import Price Control Law was enforced for the purpose of removing the undesirable effects differences of prices between Japan and the Yen Bloc countries.

In order to promote trade with countries other than those of the Yen Bloc, the Export Commodities Purchasing Company and the Raw Materials for Export Commodities Company were established in Tokyo, Yokohama and other cities. Later on, they were amalgamated into a single Company and renamed the Japan Trade Promotion Company. It takes charge of the supply of raw materials for quite a number of commodities excluding goods, such as based on the link system, for bonded factories, raw and waste silk and certain textiles. This Company is to act as Manufacturers, standing between them as a an intermediary between Exporters and control organ; it will not export directly.

For trade with countries other than Manchoukuo and China, it is proposed to make trade agreements based on a barter or a clearing system. For instance, on December 24 a financial agreement was made between the Yokohama Specie Bank and the Bank of Java. This was the first agreement of this sort concluded with a country which Japan considers as being within the East Asia Mutual Prosperity Sphere.

There are also indications to the effect that the link system will be supplanted by a Pool Account system by commodities. In this system quotas would be fixed for each market under a planned trade mechanism.

Some bills have been passed by the recent Diet aiming at trade protections, guarantees to Exporters against losses applicable for business with countries outside of the war zones and as a preparation for retaliatory steps in the case of Anti-Japanese restrictions abroad.

The Import and Export Trades with Manchoukuo, the Kwantung Province and China are controlled by the Japan-East Asia Federation of Import and Export Control Associations, established some time ago.

According to a survey by the Mitsubishi Economic Research Bureau based on the financial reports of 172 Japanese Companies with a total capital paid up of Y.6,530,000, the following data on profits, dividend rates and reserves have been published.

Ratio of Net Profit to Paid-up Capital

	2nd Half 1939	1st Half 1940	2nd Half 1940
	%	%	%
Trust Companies	24.8	25.6	21.4
Exchange and Security brokers	14.3	12.5	10.1
Commerce	26.6	26.3	20.3
Transportation and Warehousing	12.0	13.0	14.6
Manufacturing Industries	17.7	16.3	15.9
Textile	16.9	17.7	18.2
Ceramics	15.9	16.6	16.7
Chemical industries	14.7	14.7	15.0
Machine industries	17.7	17.6	15.8
Heavy industries	19.4	15.3	13.9
Foodstuffs	24.0	19.5	23.2
Miscellaneous	16.5	17.5	16.8
Mining	16.0	15.0	17.6
Gas and Electricity	9.2	8.3	9.0
Miscellaneous	10.3	11.0	12.5
Average	15.2	14.3	14.7

Dividend Rates and Rates of Reserves (%)

	Dividend Rates			Reserve Rates		
	2nd Half 1939	1st Half 1940	2nd Half 1940	2nd Half 1939	1st Half 1940	2nd Half 1940
Trust Companies	6.5	6.5	6.5	70	69	65
Exchange and Security Brokers	8.0	8.1	7.5	37	28	18
Commerce	13.7	13.5	7.3	46	46	61
Transportation and warehousing	7.9	8.0	7.8	41	35	44
Manufacturing industries	9.9	9.5	8.9	42	39	41
Mining	11.1	10.9	10.4	28	25	39
Gas and Electricity	7.8	7.3	7.5	13	9	15
Miscellaneous	7.5	7.7	7.9	21	23	32
Average	9.4	9.1	8.5	37	34	39

The total net profits which had declined during the first half of 1940, as compared with the second half of 1939 (down to Y.424,000,000), increased during the second half of 1940 (to Y 476,000,000) and the average percentages were 14.3% and 14.7% for the first and second halves of 1940. The total dividends paid out for the first half of the year were Y.271,000,000 and for the second half Y.278,000,000. The rates of dividends show a declining tendency from 9.4% for the second half of 1939 to 9.1% for the first half of 1940 and 8.5% for the subsequent period. The higher total amount of dividends paid for the second half of 1940, in the face of a declining rate of dividends, is explained by the fact the capital paid up of the Companies surveyed was figured at:

Y.5,661,696,000 for the second half of 1939
Y.5,967,824,000 for the first half of 1940
Y.6,530,423,000 for the second half of 1940

More than one-fourth of the Companies in question reduced their rates of dividend; more than 80% of them paid between 6 and 10%; 19 Companies distributed between 10.1% and 15% and four Companies paid more than 15%.

Undivided profits retained in business averaged 34% for the first half of 1940 and 39% for the second half of the year. This indicates a conservative financial policy of the various Companies in general.

It would be misleading, however, to believe that Importers and Exporters trading with third countries, that is, with countries outside of the Yen Bloc, are all enjoying favourable times. Generally speaking, a good many of them, Japanese and foreign alike, find their activities considerably curtailed on account of business restrictions, partly caused by the political situation and also partly on account of local conditions. The business results of those affected are not exactly encouraging, so that various firms had to reduce the number of their employees, others found it preferable to close down and still others are said to be contemplating closure.

Foreign firms find it difficult, or even impossible, to diversify their business by dealing with the Yen Bloc, partly on account of the difficulty of making suitable connections, partly owing to unfamiliarity with those markets, and also because of the risks involved or of other handicaps with which they are confronted.

According to the Industrial Bank of Japan, the increase of capital for the expansion of the productive capacity of the country for 1940 amounted to Y.5,852,000,000, which shows a decrease of Y.681,000,000, compared with the preceding year. The Government held in check the establishment of Corporations in non-urgent or unnecessary lines. Details are as follows:

	1940	Compared with 1939
New Capitalization ..	Y.1,250,159,000	—2,080,192,000
Capital increases	2,440,780,000	+ 602,658,000
Debentures issues	2,161,518,000	+ 746,284,000
	Y.5,852,457,000	— 681,251,000

The Cabinet Planning Board is understood to be drafting a second Production Capacity Expansion Program to be carried out after the expiration of the present four year plan, early next year. This is to be for the purpose of strengthening and enlarging the economic self-sufficiency system for East Asia and it is to be mapped out in accordance with the plans for the economic structure for Japan, Manchoukuo and China.

It is interesting to note that Japan has come to the point of no longer relying on the export of Raw Silk to the United States to create substantial amounts of foreign exchange Instead, plans have been formulated for their Raw Silk Industry so as to align it more closely with the international requirements of the country. This is all the more impressive as in the past Japan's Silk exports formed the principal source of income from abroad.

According to the Ministry of Agriculture and Forestry, the total rice crop for the Empire of Japan amounted to 90,303,000 koku, an increase of 1,509,000 koku, or 1.7% over the previous year. However, it showed a decrease of 4,086,000 or 4.3% from the average of the preceding five years. (1 koku—180.4 litre—4.96 bushel). Particulars are as follows:

Rice Crop in Japan Proper, Chosen and Taiwan

(in 1,000 Koku)

	Japan Proper	Chosen	Taiwan		Total
			1st crop	2nd crop	
1935	57,456	17,885	4,328	4,794	79,669
1936	67,339	19,411	4,739	4,820	96,309
1937	66,319	26,797	4,412	4,822	102,450
1938	65,869	24,139	4,886	4,931	99,825
1939	68,964	14,356	4,031	1,443	88,794
Average (1935-1939)	65,190	20,518	4,479	4,162	94,389
1940	60,874	21,527	4,224	3,678	90,303

The Government said it would fix the present price level of rice which is now under Government control.

The following figures are available for the crops of the principal agricultural products.

	1937	1938	1939	1940
		(in 1,000 Koku)		
Rice	66,320	65,869	68,964	60,874
Barley	6,879	6,325	7,764	7,525
Rye	5,961	5,114	6,730	6,262
Wheat	9,996	8,971	12,113	12,114

The above given results for 1940 make it difficult to understand the prevailing shortage of those commodities, as well as other foodstuffs, the more so as I had explained in previous Annual Reports that Japan is a foodstuff exporting country. The present shortage situation is not explained satisfactorily by saying there are import difficulties, too low official prices, or the "Have"-Prefectures are refusing to sell to the "Have not"- Prefectures unless against barter of other commodities, and which cannot always be accomplished as desired. It may have to do with what we have all heard, that it is contemplated to reduce the consumption of commodities in general to the minimum required for the maintaince of health. The Inspector-General of the Tokyo Metropolitan Police is understood to have explained that the rice ration ticket system, enforced since April 1, 1941, aims at conserving this cereal to a certain extent, and that there is no fear of a rice shortage in the country, although, under the new system, the rationing reduces the consumption from what the public was used to in previous years.

We foreigners, who have always been accustomed to live on a different standard from that of our Japanese hosts, do not find the aforesaid exactly pleasant. We have to endeavour to get along with necessities on a reduced scale, or of a lower quality than in the past or with entire substitutes. In case the substitutes are unsuitable or unavailable we must do without these alternatives.

It has been remarked that it is difficult to understand the reluctance of the Authorities to grant import permits to foreigners for commodities for personal use, which would be paid with funds held abroad. This would not require any remittances of foreign currencies and customs duties would be paid to the advantage of the Finance Department. Such comments, however, overlook the fact that the Authorities might then have to grant similar facilities to certain Japanese subjects, and this might run counter to the national policy of bringing the whole country down to a more sober mode of living.

The Government has drawn up plans covering Japan Proper, the Colonies, Manchoukuo and China, with the aim of increasing the output of rice and cereals, so as to create self-sufficiency of foodstuffs for the projected economic Far East Bloc. It is proposed to assure the production of 83,000,000 koku of rice and 25,000,000 koku of wheat in Japan Proper in a normal year. It will require considerable time until such can be attained. Efforts will be made to increase the rice crop during the current and next year by about 400,000 koku of rice, 1,240,000 koku of barley and 1,630,000 koku of rye. Endeavours will be made also to increase the production of potatoes by 55,550,000 kwan, sweet potatoes by 8,000,000 kwan and upland rice (as distinguished from rice grown in the paddy fields) by 60,000 koku.

The *Sugar Production* of the Empire of Japan for the 1940/1 sugar year has been estimated at 16,546,000 piculs, a decrease of 5,360,000 piculs when compared with the previous year, caused chiefly by a typhoon in Formosa.

Cost of Living: It has been reported according to statistics compiled five years ago that a Japanese spends for upkeep barely one-tenth of that necessary for the per capita population of the other great powers. More recently it has been reported that the Japanese have restricted their expenditures to about 60% of that ncessary to maintain a level of living commensurate with the pre-China Incident days. The same report intimated that a further reduction of 50% from the present level may be necessary.

Official figures, however, show that Japan has been the only country to achieve a reduction in living costs as a result of the Government's endeavours to maintain a so-called "low price policy," but there are distinct signs that the enforcement of such a policy has its limitations, in the face of internal and external factors which work against it. The Government has now said that it will go over to an "adequate price policy," which will include the production costs, or acquiring costs, plus a reasonable profit. This explains why we now have slowly advancing indices (since July, 1940) beyond the heights attained last year.

In addition to the aforesaid, there is no doubt that the standard of living has been lowered in spite of increasing wages for the Japanese.

Wage Earners' Cost of Living

Source: The Cabinet Bureau of Statistics (Basis: July, 1937=100)

	1937	1938	1939	1940
Foods and Drinks ...	103.9	112.5	138.0	149.6
Housing	100.5	104.5	110.5	117.6
Light and Fuel	111.4	120.4	129.0	143.3
Clothing	101.5	135.0	163.7	193.6
Miscellaneous	102.1	105.8	108.2	120.1
Average	103.0	113.4	130.7	144.4

The decline of actual earnings based on retail prices is what counts for the average man, and it shows clearly that in spite of higher wages to compensate for the higher costs of living, the standard of the latter in general has been lowered for the Japanese. There is no gain-saying that the foreigners' standard of living has declined on the whole decidedly more so than the Japanese.

As regards Foreign Exchange, the Yen has remained pegged to U.S. Dollar at $23.7/16, while on London, on account of the fall in the New York-London rate, it advanced for a time to a little over 1sh. 5d. Following a banking arrangement made by Great Britain in the United States in August 1940, the U.S. Dollar/Sterling cross rate has remained steady at around 4.03 and the Yen exchange on London has been quoted officially at 1sh. 2d. The fluctuations in the rate of exchange on Sterling in early 1940, as well as the restrictions imposed by the British Government on dealings in that currency, have had serious repercussions on Japan's foreign trade, the more so as a considerable percentage thereof was formerly based on that currency. For a while the Japanese Government stopped all permits to exporters and importers. As a result many shipments could not be effected and many exchange contracts around the 1/5d. level remained still unsettled with the Banks at the end of 1940.

Japan is endeavouring more and more, and has succeeded in some instances, to have contracts made in Yen currency in its dealings with third nations.

The Budget foresees the issue of Government Bonds to the extent of Y.7,979,000,000 which implies an increase over last year's budget of Y.2,398,000,000. Besides the aforesaid, there are a further Y.594,000,000 of Bonds to be floated for Special Account estimates. The question is, therefore, whether Japan will be able to issue satisfactorily such a large sum of Government Bonds.

During the year Internal National Bond increased by Y.6,755,000,000. On the other hand, the external National Bonds showed a decrease of Y.21,500,000, representing repurchases, apart from which Japan again fulfilled faithfully the payment of interests due abroad. However, there remains the tendency of continued increase of Government Bonds unabsorbed and carried by the Bank of Japan, which on December 28, 1940, amounted to Y.4,244,095,000 against Y.1,841,-408,000 on December 31, 1938. These figures represent an increase of Y.2,403,687,000 during the last two years.

It should be noted however, that, in its statement for the week ending March 29, 1941, the Bank of Japan placed its holdings of Government Bonds at Y.3,572,240,000, which indicates a decline of Y.671,855,000 since the turn of the year.

It has been pointed out that increasing budgets carry with them the seeds of note inflation, especially on account of the increasing amount of currency that is to be issued and which goes hand in hand with the budgets. This is confirmed by the following figures of the Bank of Japan which gives notes issued at the

end of 1938 ..	Y.2,754,923,000
end of 1939 ..	Y.3,679,030,000
end of 1940 ..	Y.4,777,429,000

It may be interesting to note that the Note Issue of the Yen Bloc was estimated to have been Y.8,097,822,000 at the end of 1940 compared with Y.4,381,554,000 at the end of 1938.

The amount of Japanese Army Notes in circulation in China is not included, as they are not published.

It would appear, however, that there are two vital points which call for further comment. One is the question of Foreign Exchange, and the other the matter of finding markets to compensate for the trade loss in the Pound Sterling and Dollar areas.

Japan is no longer exporting for the primary reason of obtaining foreign currencies; exports have become a means of importing necessary materials and no amount of exports would be of benefit to this country unless in return it can acquire what it needs most.

In the past a peculiarity of Japan's foreign trade was its dependence on the Anglo-American markets, and excesses of revenue from exports to the Sterling Bloc were exchanged into Dollars for the purpose of paying for imports from the U.S. Dollar Bloc.

This is no longer possible, partly on account of restriction on the use of Sterling currency and partly because of restrictions on exports from the American Bloc to Japan. Therefore, Japan is in need of markets elsewhere, to replace the lost ones.

Since June 1, 1941, under the Foreign Exchange Loss Compensation Law, approved by the Diet in March this year, the Japanese Government decided that the State is to bear all exchange losses that may be incurred by the Japanese foreign Exchange Banks dealing with the Sterling Bloc, in respect of which the following currencies were designated: The British, Egyptian, South African and New Zealand Pounds, the Indian Rupee, the Straits Settlement Dollar, the Hongkong Dollar and the Thaian Bhat. Because of the risks involved, Exchange Banks were no longer in a position to transact forward exchange in terms of the said currencies. As on May 31, all outstanding exchange contracts had to be transferred through the Bank of Japan to a Foreign Exchange Concentration Account, which is kept by the Yokohama Specie Bank, Ltd., and thereafter, all Japanese foreign Exchange Banks are requested to transfer daily their business in the same way as just mentioned. For the time being, the official rates of the Bank of Japan are 1s. 2.1/32d. for selling and 1s. 2 15/32d. for buying, which allows the Exchange Banks to retain 1/32d. for each, buying and selling, or a total of 1/16th for combined selling and buying, which was the normal margin in pre-war days. Under this arrangement, the Japanese Foreign Exchange Banks will be freed from risks arising from possible fluctuations in exchange rates on forward contracts, and it is hoped legitimate and normal trade will be benefitted. No attempt will be made to encourage speculation in foreign currencies. Neither does it signify any change in the Government's established policy of promoting exports in terms of the Yen, nor is it designated to provide for the risks of possible freezing of Japanese funds abroad by Foreign Governments. Y.500,000,-000 have been earmarked for the compensation of possible losses in exchange transactions; profits if any, are to belong to the Government.

Similar measures are to be enforced as from July 1 for all other foreign currencies, which include the American Dollar, Argentine Peso, Brazilian Milreis, Canadian Dollar, French Franc, French-Indochina Piastre, Italian Lira, Netherlands Indies Guilder, Reichsmark, Swiss Franc and the Swedish Krone.

And, also from July 1 on, importers and exporters will have to settle their exchange contracts within one week after the conclusion of their import and export contracts.

By these measures, the Government, whilst protecting the Foreign Exchange Banks from losses on account of possible exchange fluctuations, aims at frustrating the same banks from deriving any extra profits. Simultaneously, the Government hopes to check speculation in exchange on the part of commercial firms.

Some Bankers have meanwhile expressed the opinion that the foreign exchange level of the Yen should be enhanced, on the grounds that, since many export prices are controlled by the Government to a certain extent, and since the transactions of foreign exchange in general are brought under control, a higher Yen level would bring in more foreign currencies from the exports, while it would simultaneously reduce the Yen value of imports, and thereby contribute towards an improvement of Japan's balance of trade with third countries.

A revised and improved Government system of Insurance against Non-payment of Export Drafts is in force since April 1, 1941. It applies only to certain countries outside of the "Yen Bloc." Under certain conditions, exporters are in a position to cover themselves up to 80% of the draft amount on payment of a fee varying between ½% and 2%, depending on the kind of draft and on the foreign country.

By way of additional guarantee, the Government decided on May 23 to set aside Y.20,000,000 for the purpose of indemnifying manufacturers and/or exporters up to 80% of the f.o.b. export values in case it becomes impossible to ship contracted goods on account of changed wartime conditions or import restrictions. In order to benefit under this scheme, certain formalities have to be complied with; also, it must be proved that the goods were procured with the exporters' own funds. Such goods have to be bought by the Japan Trade Promotion Association, or by any other organization which the Minister of Commerce and Industry may designate, and at a price to be arranged at not higher than 80% of the contracted f.o.b. export value; such goods then have to be exported by designated buyers to countries outside the "Yen Bloc."

Following the recent rapid changes in the European international stage, the opinion has been expressed that in Japan trade control in general will be increased, co-incident with a re-examination of the foreign trade policy.

On June 20, at a conference of the 64 Chambers of Commerce and Industry in Western Japan, it was resolved among others to request the Government to inaugurate a Business Permit System for the whole of Japan, as soon as possible, to be based on the National Mobilisation Law.

It has been pointed out repeatedly that Japanese products in quite a number of lines are not comparable to those of other countries, as regards quality, and that with the mounting trend of costs, the price advantage is being wiped out. Therefore, if this country wants to maintain or improve its export trade, efforts must be concentrated on improving the quality of its products to the level of Japan's competitors in the world markets. This is most important, and there is reason to believe that, as a result of various measures which are being taken by the Authorities, we will see an improvement of quality as time goes on. It is partly because of the aforesaid that Japan has not been able to secure substantial results as regards Central and South America.

The Department of Communications announced a slight reduction in the cable charges to third countries, to take effect on July 1, by adopting a basis of 65 for 1 Gold Franc, instead of the previous 70 sen.

Since the staggering blow caused by the Great Earthquake in 1923, Yokohama has been fighting a losing battle against the establishment of an open port in Tokyo. This is the outcome of the requirements of the ever increasing industrial district, which has been created around Tokyo and its hinterland, and now plans have been laid for accommodation of seagoing steamers up to 6,000 tons' for the traffic with Manchoukuo and China. The aim is to conserve labour and save the expense of loading and unloading at Yokohama and additional transport charges to and from Tokyo. It will also expedite the transportation services between Japan and the Yen-Bloc countries. On May 20, 1941, a combination of the Tokyo and

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AGRICULTURE

Mechanization of Agriculture in Japan

FARM mechanization in Japan has been progressing slowly but steadily in spite of all the difficulties attending wartime conditions. Motor-driven soil cultivators in the country numbered 2,971 as of November, 1939; the index, as calculated with November, 1935, as 100, stood at as high as 1,338. They are now used in almost all the prefectures. The corresponding index for motor-driven threshers increased to 140 in November, 1937 and 229 in November, 1939; that for rice hulling machines advanced to 103 and 127 respectively. Although the number of hulling machines has decreased in such "advanced" farming districts as Okayama and Fukuoka, it does not show the slowing down of the mechanization process, but it is nothing strange because the capacity of superior hulling machines has improved considerably in the past years.

More Motors Used

Both electric motors and gasoline engines, too, have been gaining popularity among Japanese farmers. The index (100 for November 1935) for electric motors increased to 142 in November, 1937 and 193 in November, 1939; that for gasoline engines to 130 and 210 respectively.

Cultivated land per unit of power plants (including not only the above mentioned two kinds but a small number of gas engines) was 10.3 cho (one cho is 2,451 acres) as of November, 1939 as compared with 16.7 and 22.4 cho respectively in 1937 ad 1935. The figure was less than 10 cho in such districts as six Kanto prefectures (except Ibaraki), Hokkaido, Niigata, Shizuoka, Shiga, Osaka, Wakayama, Tottori, Shimane, Okayama, Yamaguchi, Tokushima Kagawa, Fukuoka and Saga Prefectures. Okayama prefecture has the largest number of power motors, and cultivated land per unit was only 3.3 cho in 1939.

The following table shows the numbers of power-driven agricultural machines in use.

Major Prefectures	Soil Cultivators			Threshing Machines			Hulling Machines		
	1935	1937	1939	1935	1937	1939	1935	1937	1939
Hokkaido	19	21	50	14,304	14,304	17,149	9,450	9,377	9,962
Akita	—	3	189	1,246	1,807	2,396	750	2,087	3,544
Yamagat	2	3	10	248	2,041	3,329	369	2,341	3,926
Tochigi	—	3	34	2,485	2,504	7,993	2,250	2,003	4,072
Gumma	—	—	80	906	1,863	2,948	902	1,616	4,525
Saitama	1	8	60	2,299	4,001	10,065	2,157	3,141	6,196
Chib	5	2	2	3,899	6,263	7,656	3,322	5,239	5,914
Niigata	—	—	40	10,295	16,582	29,750	8,841	14,123	18,095
Toyama	4	3	78	15,170	14,670	14,882	14,054	13,082	13,253
Aichi	2	—	6	917	1,035	2,901	3,319	3,132	3,780
Shiga	2	4	17	230	1,100	2,759	3,065	3,159	4,131
Kyoto	—	—	11	383	425	1,332	2,022	2,217	2,923
Hyogo	—	4	40	1,274	4,573	4,949	3,099	3,002	3,731
Tottori	1	3	38	4,415	5,882	8,353	4,211	3,788	4,322
Fukuoka	2	5	500	833	1,374	10,448	4,284	2,395	2,010
Okayama	142	472	1,196	10,471	12,029	17,283	8,370	7,511	6,795
Country's total	222	569	2,971	91,735	128,620	210,579	104,498	107,778	132,701
Index	100	256	1,338	100	140	229	100	103	127

Some idea of the increasing popularity of power plants can be obtained in the following figures:

Major Prefectures	Electric motors			Gasoline Engines			Land per Unit, Cho		
	1935	1937	1939	1935	1937	1939	1935	1937	1939
Hakkaido	1,392	2,018	2,005	8,435	12,123	20,028	21.4	14.4	4.8
Tochigi	494	703	2,110	2,012	2,541	7,845	31.2	24.0	7.6
Gumma	149	625	2,101	1,087	1,628	4,400	27.2	15.3	5.2
Saitama	471	1,573	4,862	2,188	3,767	7,515	25.7	12.8	5.4
Chiba	2,169	2,421	2,595	4,493	6,885	8,495	16.6	11.9	9.5
Tokyo	100	172	678	461	519	928	18.2	13.9	5.0
Kanagawa	146	213	581	685	1,303	2,525	25.6	13.6	6.7

Niigata	7,119	13,877	21,019	3,498	3,521	5,392	17.2	10.5	6.8
Shizuoka	3,797	4,475	4.607	3,361	4,819	6,176	14.6	10.6	8.0
Shiga	1,246	1,570	1,804	3,913	4,540	6,251	7.9	6.7	5.3
Kyoto	1,707	1,720	1,744	1,871	2,362	2,488	11.6	10.4	9.4
Osaka	435	645	882	1,778	1,850	3,117	21.1	18.5	9.6
Wakayama	159	283	322	1,379	1,596	3,106	20.0	16.7	8.4
Shimane	1,840	2,536	3,342	4,372	5,575	6,871	9.1	6.9	4.9
Okayama	1,986	2,122	2,225	12,221	51,877	22,280	6.2	4.9	3.3
Yamaguchi	537	1,020	1,2[illegible]3	2,787	3,941	6,397	24.7	16.4	8.5
Tokushima	356	367	378	2,787	3,269	3,388	8.7	7.7	7.5
Kagawa	64	98	92	2,147	3,706	7,945	17.7	10.3	4.5
Kukuoka	1,802	2,022	2,524	3,353	4,418	11,851	21.7	17.3	7.2
Saga	857	1,039	1,029	1,516	5,374	7,860	23.3	8.6	6.0
Country's Total	47,138	66,718	91,053	96,353	125,583	202,046	22.4	16.7	10.3
Index	100	142	193	100	130	210			

(In other prefectures than the above-mentioned the cultivated land area per unit in 1939 exceeds 10 cho.)

Technically Feasible

It is technically possible for a one horsepower electric motor to thresh the crops. Therefore, it is not impossible to carry out a 100 per cent farm mechanization in major agricultural fields because the per unit land area is less than 10 cho.

As a matter of fact, however, farm mechanization has not yet advanced to that point. Take for instance the most popular machine, power-driven threshers. Power units are adopted so widely in Saitama and Niigata prefectures that land area per unit is 5.4 and 6.8 cho respectively (as of 1939). If they are used effectively, at least threshing of crops could be 100 per cent mechanized. But 1939 statistics reveal that the actual mechanization was only 51 and 43.7 per cent respectively in Saitama and Niigata prefectures. Power sources for threshing work as of 1939 are classified below by major, prefectures (in percentage):

	Foot	Draft Animal	Water Power	Electric Motors	Gasoline Engines	Total (including others)
Aomori	91.50	0.07	0.60	1.30	5.40	100
Iwate	76.60	1.00	3.00	1.00	17.00	100
Miyagi	60.00	—	1.00	6.00	30.00	100
Akita	87.00	—	0.00	4.00	8.00	100
Yamagata	67.70	—	1.40	15.40	13.80	100
Tochigi	46.00	1.00	4.00	6.00	43.00	100
Saitama	43.00	3.00	1.00	11.00	40.00	100
Chiba	55.00	1.00	1.00	6.00	37.00	100
Niigata	28.39	2.35	3.12	23.70	19.96	100
Nagano	82.00	—	1.00	1.00	15.00	100
Aichi	85.26	0.14	—	0.25	13.86	100
Miye	84.00	—	—	1.00	13.00	100
Shiga	89.20	—	—	0.40	8.50	100
Kyoto	87.00	—	0.00	1.00	11.00	100
Tottori	63.39	—	7.12	2.04	19.60	100
Tokushima	80.80	—	—	—	9.10	100

(Minor sources are omitted).

What then is the most responsible factor for such a deplorable state of things? In order to answer this, let us take a close-up of the situation in Niigata Prefecture. Although in 1939 there were 29,750 power-driven threshers in this prefecture, a sufficient number for paddy fields of 181,958.7 cho (or 6.1 per unit), more than one half of rice crops was threshed by primitive machines operated by hand and foot. In the writer's opinion this is attributable to the following circumstances: (1) Adoption of modern machines is not uniformly carried out according to districts and social classes; and (2) the scale of farming is too small as compared with the capacity of machines adopted; and (3) most of the machines now in use are owned and operated privately and not on a cooperative basis. To summarize, the stumbling block to the technically possible 100 per cent mechanization is not the natural or technical but the historical and social features of our farming industry.

Land Cultivation

In Niigata Prefecture, tractors can be used in 47,523 cho of paddy fields. In reality, however, they are practically used in 427.5

cho, or only 0.9 per cent. Since the prefecture has only 40 power driven cultivating machines (each having a 10 cho capacity), it does not mean that they are not used at full capacity but that their number is small as compared with the area of paddy field where tractors can be employed. On the contrary. Okayama Prefecture in November, 1939 had 1,196 machines and the number increased to 1,558 in February, 1940. Cultivated land per unit was two or three cho in some districts. Because one machine can cultivate about 10 cho, it may be said that these machines are three to five times more than necessary, technically speaking. The fact that farming machines are too numerous in some districts and classes while too scarce in other areas and social strata deserves serious consideration.

Hence comes the urgent necessity of controlling the much-desired farm mechanization program. Although it is technically possible to carry out a 100 per cent mechanization of our farming industry with the existing equipment, the actual mechanization even in some advanced farming centers, such as Saitama and Niigata, is around 50 per cent. This is partly because Japanese farmers with land less than three cho operate machines capable of doing five to ten cho. Therefore, it is necessary to set up a new cooperative labor system in order to give full play to these machines. Since the already adopted machines are often "too big" for our minor farms, rational mechanization of agriculture is hardly possible unless the farm setup is overhauled on a cooperative basis. If the distribution of mechanical equipment is so controlled that they may be used uniformly and widely among farm districts and classes, two obstacles in the way to cooperative reorganization can be removed simultaneously—unnecessary concentration of machines in some advanced areas, such as Okayama, which makes it difficult to effect cooperative farming, and the lack of machines in other districts which constitutes a serious stumbling block to rational cooperative work.

"Good Old Days" for the Foreigner in China—Are Gone

(Continued from Page 16)

Netherlands developed the East Indies into their own treasure house where entrance to others was heavily restricted.

That acquisitive nations selfishly denied commercial opportunities to outsiders in the past, however, is no justification for the perpetration of the same tactics in Japan's new sphere of influence. To the contrary it must be emphasised that such restrictions have been largely responsible for the division of the world into "Haves" and "Have-Nots," a situation which played no small part in bringing about several wars. Rather, it must be impressed that future peace and prosperity depends much on equality of opportunity so that there shall be freedom from want. And this state of affairs is not going to exist in the Far East or anywhere else if a single nation or group of nations insists on fencing off a great and rich area as its exclusive stamping grounds.

At the same time Japan cannot be expected to open up her sphere of influence to general foreign trade unless she is given reciprocal rights in other areas. The "Open Door" cannot fairly be made exclusive to the Far East while the rest of the world is closed to trade, nor can the world's markets be thrown open to trade profitably while the commercial door to the Orient is tightly closed.

The proposition then is a mutual one with all the powers co-operating to re-establish the trade disrupted by the wars and to revitalize the trade rigidly controlled by the various barriers raised by monopolistic tactics. Only by this sort of co-operation can the freedoms envisioned by President Roosevelt and the eight points outlined in the Churchill-Roosevelt meeting be realized.

If this lesson can be impressed upon those who direct Japanese policy as well as the "Have" powers, there is hope that the Westerner will return, no longer an interloper, but without question a welcome joint developer of the vast possibilities that the Far East holds. If the economic imperialism of the past is to be retained and old sores irritated into new outbreaks, it will be a long time before either the Western nations or Japan open up their respective areas to commerce and the Yen-bloc must inevitably become forbidden to non-Oriental enterprise.

Japan's Aircraft Industry

UNDER the stress of war and international tension, the aircraft industry of Japan has pushed to the forefront of air-minded countries, according to the September issue of the Jitsugyo no Sekai, (Business World), which traces the origin of the industry to efforts of shipbuilding concerns, notably the Mitsubishi Heavy Industries. An extract translated by Contemporary Opinions follows:

Good pilots demand efficient aircraft, and vice versa. Fortunately, the aircraft industry of Japan has developed to the world standard in recent years.

The industry was started in this country by shipbuilding concerns probably because aircraft as well as steamships are driven by propellers. The first company entering this new field was the Mitsubishi Heavy Industries Company, the oldest and largest shipbuilder. It was formally incorporated in June, 1934, through amalgamation of the Mitsubishi Shipbuilding and Mitsubishi Aircraft companies (the latter was set up in 1928 by absorbing the Mitsubishi Internal Combustion Engine Company established as early as in 1914). It is operating on the so-called "through-process" basis, i.e. making not only fuselages but propellers, engines and all other parts and accessories (many of them in accordance with foreign patent specifications under royalty or by purchase). Major aircraft firms are (the date of establishment in parenthesis: capital in terms of Y.1,000):

	Authorized Capital	Paid-up Capital
Mitsubishi Heavy Industries (1917)	240,000	210,000
Sumitomo Metal Industry (1926)	200,000	150,000
Nakajima Airplane (1931)	50,000	50,000
Kawasaki Aircraft (1937)	50,000	50,000
Kawashima Aircraft Industry (1940)	25,000	17,000
Aichi Clock and Electric (1898)	30,000	25,522
Hitachi Aircraft (1939)	30,000	30,000
Showa Airplane (1937)	30,000	7,500
Nippon Kokusai Aircraft (1940)	36,000	13,500
Tachikawa Airplane (1938)	25,000	22,000
Watanabe Iron Works (1886)	15,000	15,000
Kawanishi Aircraft (1928)	30,000	18,750
Nippon Musical Instruments (1897)	8,750	8,750
Nippon Airplane (1934)	5,000	5,000
Manchuria Airplane (1938)	100,000	70,000

(Most of these firms are making parts and accessories, and five of them—Mitsubishi, Nakajima, Kawanishi, Kawasaki and Aichi—are operating on the "through-process" basis.)

Starts Independently

Whereas Mitsubishi undertook the aircraft industry with its long experience and superior technique, Chikuhei Nakajima started making military planes independently without any help from others. Although his is now a well-known name in both business and political circles, he was a mere engineer lieutenant in the Navy when he entered the business world after retirement from active service. Upon graduation from the Naval College, he was appointed chief of a naval aircraft factory. In those days an inspiration came to his mind: "I'd like to become a pioneer of private aviation because the industry should not be promoted not merely for military purpose but as a private enterprise." All his seniors dissuaded the promising young lieutenant from this adventure, but Admiral Kantaro Suzuki, the then Navy Vice-Minister, supported his idea. Late in 1917 he constructed a small factory at Ota, his native town, in Gumma profecture. He himself worked hard together with some other 30 young employees. It was in 1931 that the Nakajima Airplane Company was formally incorporated as a joint-stock firm.

Another prominent aircraft industrialist is Seibel Kawanishi, who founded in 1928 the Kawanishi Aircraft Company. At first he cooperated with Mr. Nakajima, but due to the difference of opinion on technical matters he severed connection with Mr. Nakajima and built in 1920 an aircraft laboratory in the compound of the Kawanishi Machinery Works at Kobe. His plant was set up in 1928, at first specializing in fuselage construction. It was in 1934 that the company started making aircraft engines.

The Kawasaki Aircraft Industry Company is making mostly airplanes for public use while Kawanishi and Nakajima are concentrating efforts on production of military craft. As in the case of Mitsubishi, the company was made independent from the Kawasaki Shipyards (renamed the Kawasaki Heavy Industries Company) at Kobe. Incidentally, the Ishikawajima Shipyards, too, is reportedly planning to set up a new subsidiary for aircraft engines.

Clock, Piano Firms Enter

The Aichi Clock and Electric Company started manufacture of ordinance during the

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OVERSEAS TRADE

Control of Japan's Foreign Trade

IN view of the present disturbed international situation and particularly the effect of the American and British orders freezing Japanese assets in those countries, Japan, says the *Japan News-week,* has decided to completely overhaul its policy with regard to foreign commerce. At the same time steps were taken to rigidly control the storage and preservation of all materials and commodities in Japan, the move applying equally to goods for export and those for consumption. New and important steps were also taken to improve the prospects of increasing the rice crops in the future.

The matter of revising Japan's foreign trade policy has been the subject of official discussion ever since the application of orders for freezing Japanese assets in the United States and the British Empire. Heretofore Japan has exported to Manchoukuo and China only surpluses of commodities after trade with other nations was provided for. According to the present plan goods will be exported to those countries in practically unlimited quantities. At the same time importations from Manchoukuo will be held to a volume slightly less than that of the 1940-41 fiscal year, while importations from China will be somewhat increased.

Japan's export business has been conducted in the past with the chief aim of accumulating foreign credits but since the effect of the British and American freezing orders has been complete stoppage of all such trade, the present plan aims at a continuance of the supply of essential materials for Japan's domestic needs.

To Reduce Firms

It is expected that the new plan, when placed in full operation, will tend to reduce the number of firms engaged in foreign trade, because a large number of the 500 firms engaged in the past in trade with non-yen bloc countries are expected to go out of business. At the present time there are approximately 6,000 concerns in Japan trading within and outside the yen bloc.

It was reported that with the approval of the plans for the control of funds the Japanese Government has completed all of its wartime programs which have been under consideration. Those previously passed were the commodities mobilization plan, the production plan, control of traffic, control of electric power and the regulation of labor.

The plan for control of funds was revealed by the Japanese Government in the form of excerpts of talks by Lt.-General Teiichi Suzuki, president of the Cabinet Planning Board. According to Domei the plan was adopted for the purpose of effecting "a planned accumulation of national funds and their distribution for the attainment of the various programs." In formulating the plan it is said the following main points were the guiding principles, (1) funds for all programs are to be supplied out of accumulated funds; (2) artificial equilibrium is to be established between the various operating funds, taking into consideration the progressive stage of progress of the respective programs; (3) reserve funds are to be established to give elasticity to the various national programs.

For Bond Digestion

Although Domei did not definitely state, it is assumed that the funds referred to are to be created from national savings and that the chief use to which such funds will be put is in the digestion of national bonds. Certain of the funds will, however, be used to finance necessary enterprises and for investments in China and Manchukuo.

In connection with Japan's new policy of foreign trade, the Council of Permanent Members of the Nippon Chamber of Commerce and Industry on September 17 formally approved "a written opinion concerning wartime trade measures," and expect to submit the opinion to the Commerce and Industry Ministry, the Foreign Office, Cabinet Planning Board and other government offices. Among other things the opinion recommended. (1) the speedy establishment of the Foreign Trade Control Association, with departments comprising East Asia trade, South Seas trade, and one for other areas of the world; (2) special attention being paid to the method of enforcement of the license system, with the request that firms granted such licenses should possess ample assets, have a high credit standing and be known to have experience in foreign trade matters.

The control of all materials and commodities in Japan, provided for by a regulation issued on September 12 by the General Mobilization Enquiry Commission, will shortly be facilitated by a ministerial order concerning preservations and storage of key materials and commodities. For the time being, however, the Government will simply order warehouse owners, trade adjustment organizations, and producers' and distributers' organizations, to store the goods under control. Meanwhile, the Government has ordered various business organizations to buy up and store export materials, particularly cotton cloth and yarns and hosiery, it is understood.

Commenting on the Imperial Ordinance Concerning Control of Supply of Goods, to be promulgated probably October 1, Domei explains that it is necessitated by the changing emphasis from export goods to goods for home consumption, and the rigid control essential under the general national mobilization. This Supply Control Ordinance, it is reported, will invest the Government with authority to issue orders regarding production, distribution, transfer, use, consumption, repair, storage, removal, and holding of goods. The Government is also empowered to issue orders to individuals, juridical persons, and other organizations, for co-operation in demand and supply of goods. Meanwhile, many of the Ministerial Ordinances issued under the Law Concerning Temporary Measures for Exports and Imports will be gradually repealed and new orders issued as necessity arises.

Measures to improve the prospects of the rice harvest were announced on September 17, the basic principle being the encouragement of quantity over quality. Rice henceforth will be divided into only 3 grades, instead of 5, and the 71 brands have been reduced to 54, with an emphasis on the production of rice easily preserved. Rice growers will also be allowed to raise the price by Y.1.00 per 'koku' (4.9 bushels), the increase to be borne by the distributing organs. The maximum selling price of Y.43 per 'koku' will, however, be maintained.

Complete state control of Japan's shipping has been a matter of discussion for a number of months but the recent restrictions on trade with the U.S., Great Britain, and the Netherlands East Indies resulting from the freezing of Japanese assets in those countries necessitated immediate strengthening of the control which has been exercized heretofore. As a consequence the Japanese Ministry of Communications submitted to the regular Cabinet Council on August 19 a draft of the Maritime Shipping Control Act which was unanimously approved. It is expected that the new law will be shortly promulgated in the Official Gazette and come into force immediately thereafter.

The proposed control regulations envisage the creation of a special corporation, organized by the existing shipping concerns, which will be entrusted with the implementation of the new law. The law will enable the corporation to requisition necessary vessels during wartime, and to mobilize their crews and to fix their salaries. Control of major shipwards, marine engine works and factories manufacturing accessories for ships, will also be entrusted to the new corporation. If necessary, training institutes for seamen will be established and the term of study in existing marine educational institutions will be shortened in order to provide necessary crews and technicians to carry out the purposes of the law. Any losses incurred by the various concerns brought under the provisions of the new regulations will be compensated by the Government.

Finance Syndicate Formed

The problem of securing funds necessary for maintenance of industries and expansion and strengthening of industrial activity has been taken in hand by a Joint Financing Syndicate, formed on August 20. The Syndicate will consist of 11 municipal banks, including the Hypothec, Dai-Ichi, Mitsui, Mitsubishi, Yasuda, Hundredth, Sumitomo, Sanwa, Toka, and Kobe Banks, with headquarters at the Hypothec Bank. Intimate connections will be maintained between the Syndicate, the Finance Ministry, and the Bank of Japan.

The importance of joint financing of war? time industries was stressed by Finance Minister Masatune Ogura at a convention of bankers and financiers held at the Bankers' Club, Tokyo, on September 20. Mr. Ogura stated that, thanks to the fact that the freezing of Japanese assets, and other economic pressure against Japan by the United States and Great Britain, had been foreseen, preparations had already been made to minimize the effects. However, the situation is serious he said, and to meet the changing conditions here and abroad, it is essential that capital be employed on the priority basis, as well as for assimilation of government bonds. He promised that, if industrialists needed more capital for wartime industries, application to the Bank of Japan would produce it.

Effective study of economic problems is promised in the establishment of an Economic

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NETHERLANDS INDIES

Netherlands Indies and the Changes of 1940

(U.S. Foreign Commerce Weekly)

ANY discussion of economic developments in the Netherlands Indies during 1940 must necessarily divide the year into two distinct periods, with May 10 the dividing line.

During the earlier period, there continued the slow processes of adjustment which followed the outbreak of hostilities in Europe in September 1939. While some seasonal improvement in business occurred by the end of March 1940, the invasion of Denmark and Norway in April dissipated chances of further recovery.

With the invasion of the Netherlands on May 10 serious dislocation in many fields of activity in the Netherlands Indies occurred. Foreign trade was badly disorganized, and business in many lines, for a time, ceased almost completely. While nominal relations were maintained with the home government, in London, disrupted communications left the Netherlands Indies practically on its own resources, and changing economic policies were formulated as if the colony were an entirely separate entity.

Enters Sterling Bloc

Governmental measures adopted to allay the shocks and strengthen economic powers of resistance granted wide civil authority to the military command. Emergency ordinances enabled the government to confiscate business enterprises when necessary, and regulations controlling prices and profiteering, foreign trade, foreign exchange, and all other assets were promulgated.

Under terms of a monetary agreement between the British Government and the Netherlands Government at London, negotiated in June, the Netherlands Indies became in fact, though not officially, a member of the sterling bloc. The guilder was pegged at 7.60 to the pound sterling and 1.875 to the United States dollar.

In efforts to cooperate with Great Britain, the Netherlands Indies, among other things, granted de facto credit for the purchase of raw materials and placed considerable shipping tonnage at Britain's disposal on a time-charter basis. As a gesture of further cooperation, the surplus accruing to the Netherlands Indies from transactions within the sterling bloc—estimated at 100,000,000 guilders (about $53,000,000) per annum—was left frozen in the Bank of England for the duration of the war.

Agricultural Affected

Agricultural export crops of the Netherlands Indies were adversely affected by the war in Europe, while native food crops were damaged by drought. The sugar industry suffered from restricted markets not only in Europe but in India and the Near East. An agreement with India, whose own sugar industry was substantially developed during 1940, limited exports to that country, while lack of shipping facilities and prohibitive freight rates disrupted business with countries west of Suez. Although efforts were made to expand markets in the Far East, total exports of sugar in the first 11 months of 1940, amounted to only 752,520 metric tons, compared with 1,331,790 tons in the corresponding period in 1939.

The loss of tea markets in Belgium, the Netherlands, and Scandinavian countries was partially compensated by the purchase of 40,000,000 pounds of Netherlands Indies tea by the British Food Ministry. The loss of important continental outlets so affected the copra, coffee, and tobacco markets, however, that Government aid to producers was necessary.

Serious shortages in native food crops, as a result of drought in the second half of the year, were prevented by unusually heavy harvests in the early months. Moreover, adequate stocks of rice were maintained at strategic points throughout the country by the Government, which also took steps to bring large areas of untilled land into cultivation.

Rubber and Quinine

In contrast to the comparatively weak position of other agricultural crops, rubber and quinine were strong throughout the year. Rubber growers benefited considerably from demand for war purposes and from increased buying by the United States for stock piling. Exports of rubber in 1940 comprised no less than 40 percent of the total export trade of the Netherlands Indies. Shipments amounted to 544,150 metric tons, compared with 378,000 tons in 1939, and the United States was a market for 327,120 tons, against

171,150 the previously year. Figures for exports to Japan are available for 11 months only and show shipments amounting to 20,560 tons, compared with 20,440 tons sent to Japan in the 12 months ended December 1939. Japanese buyers were said to have paid premium prices on several occasions during the final quarter of 1940.

The loss of Netherlands buyers of cinchona bark was more than offset by greatly increased demand for both the bark and quinine from British and American sources, as well as greater consumption of the bark in the Netherlands Indies itself. Japan also entered the market for heavier purchases than normally, especially of quinine.

United States Heavy Buyer

Tin mining benefited considerably from wartime conditions, exports increasing 60 percent over 1939. Large purchases by the United States Metal Reserve Co. were responsible for much of the gain in export tonnage. The bulk of tin produced in the Netherlands Indies since June 1940 has, in fact, gone to the United States.

Shipments of bauxite, which were chiefly to Japan, increased. It was reported that exploitation of bauxite deposits on the island of Bintan will be extended to meet anticipated demand from the United States and Great Britain.

Exploration during 1940 of nickel-ore deposits in Celebes was said to yield satisfactory results, and a special committee was formed to investigate reports concerning iron-ore deposits in Borneo.

The year's trade in petroleum products was about the same as in 1939, except for slightly higher prices. In the early part of November an agreement was negotiated between Netherlands Indies producers and Japanese buyers for purchase of 1,800,000 metric tons of oil annually. In 1940 a plant was erected at Palembang, Sumatra, for the production of aviation gasoline.

United States As Source of Supply

As a result of the shifts in foreign trade caused by the war, the United States became in 1940 the leading source of imports into the Netherlands Indies, as well as the country's chief export market. On the basis of figures for the first 11 months, imports from the United States increased approximately 70 per cent over 1939, while exports to the American market advanced 100 percent. Trade with Japan also made important gains, imports of Japanese goods increasing about 20 percent and exports to Japan nearly 100 percent. European trade, on the other hand, showed a decline of approximately 25 percent in imports and 35 percent in exports.

The Government's import restriction policy was modified to make possible the transfer of quotas—from countries no longer in a position to supply the goods to those that were able to do so. Both official and private missions went to the United States to negotiate business relations with American interests, and an official Japanese mission arrived in Batavia in September 1940 to discuss economic relations between Japan and the Netherlands Indies. The outcome of these negotiations has not yet been announced. As a consequence of the entrance of the Netherlands Indies into the sterling bloc, certain facilities were granted trade with the British Empire.

Total Import Trade

Total imports from all countries in 1940 did not reach the previous year's level in either volume or value. On a quantity basis, import trade amounted to 1,762,200 metric tons, compared with 2,057,000 tons in 1939, while the value dropped 5 percent from 469,340,000 guilders in 1939 to 444,300,000 in 1940. (The guilder averaged $0.53 in United States currency in both years.)

A close watch of import stocks was instituted by the Government, and measures were taken to prevent hoarding and price inflation. At the close of 1940 the position of the country's import markets on the whole was satisfactory.

The year's total export trade, valued at 873,600,000 guilders, increased 18 percent in value compared with 1939. While shipments of products essential to war industries, such as rubber, tin, petroleum, and quinine, made notable gains in both quantity and value, losses occurred in exports of many minor agricultural products, especially copra, tobacco, and coffee.

Industrial progress made during the year was not as rapid as desired, although funds for the necessary capitalization were abundant. However, materials with which to build factories, the experts to run them, and supplies of skilled labor were difficult to obtain. Primary consideration was given to the development of basic industries, notably steel, copper, aluminum, and chemical products, including the manufacture of fertilizers and explosives. Local production of textiles also received considerable impetus during the year, and plans were laid for the establishment of a mill to process short-stapled native cotton and cotton refuse.

The Suifeng Dam and Power Plant

— Y. 200,000,000 Structure Completed in Five Years —

THE Shuifeng power plant began transmission of hydro-electric power on August 25. This power plant, which required 5 years of continual construction work at a cost of Y.200,000,000, proudly represents the results of the application of brilliant Japanese science and technique.

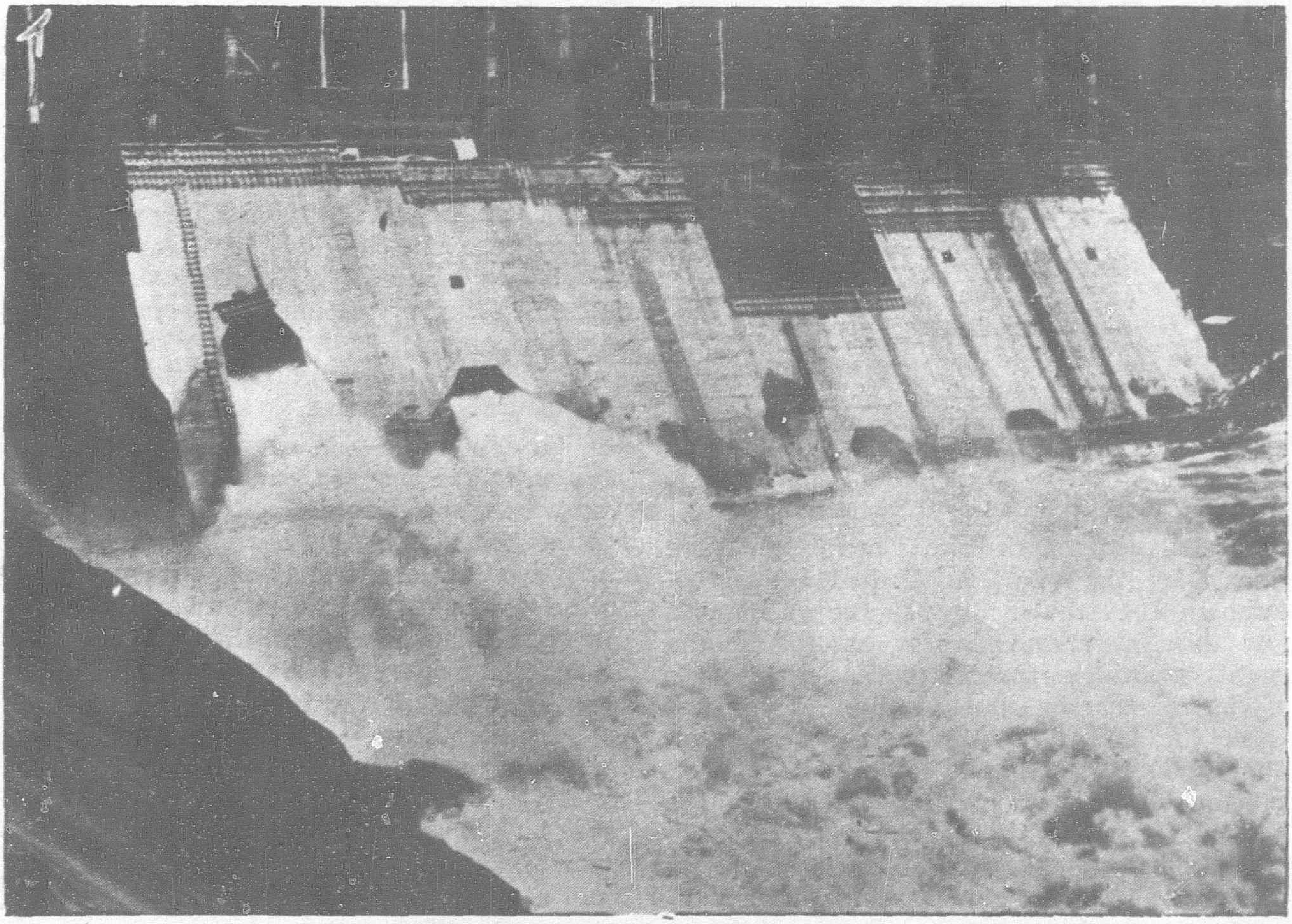
The new power plant is located on the Yalu River, 120 kilometres from its estuary, and approximately 80 kilometres above Shingishu and Antung on the Manchoukuo-Chosen border.

The dam is 106 metres high and about 900 metres long, and its embankment covers an area of 3,200,000 cubic metres. Its construction required 750,000 tons of concrete. Owing to the fact that it was impossible to obtain such a tremendous volume of concrete from the existing concrete manufacturing plants in Manchoukuo and Chosen, and since the construction required a special type of heat-proof concrete, the authorities of the power plant built their own concrete manufacturing plants in the suburb of Heijo near Shuifeng at an outlay of 6,000,000 yen.

The reservoir completed by the Shuifeng dam covers an area of 350 square kilometres. This is half the size of Lake Biwa and double that of Lake Kasumigaura in Japan, and is the second largest lake in Manchoukuo. However, it is at present the largest artificial lake either in Japan or Manchoukuo, and is considered to be the second or the third largest in the world.

The holding capacity of the dam is more than 2,000,000,000 cubic metres and the submerged area is 70,000,000 tsubo. Also 15,000 households, totalling 70,000, people have been moved elsewhere as a sequel to its construction.

To dam up the river, which is 600 metres wide, was most difficult work. With the start of construction in October 1937, work was undertaken to dam up one-third of the river, the attempt being made from both banks of the river, leaving a space of about



The Newly Completed Suifeng Dam

170 metres in the middle for the water to flow. About one year after work on the temporary dam was started, preparations for the construction of the permanent dam were generally completed. In the meantime buildings such as cement-mixing plants, water supply facilities and waste storehouses were completed in connection with the main construction work.

It was decided to build the power plant just below the dam on the Chosen side of the river. Turbines, generators, switch boards and other important accessories were installed here. The power house is 74 metres long, 33 metres wide and 38 metres high. The water from the dam is supplied to the power plant by large steel penstocks, whose diameter is 5 metres. The intake and outlet facilities of these penstocks are the largest in Japan and Manchoukuo. The turbines and generators installed here are those which hold world records in production capacity. When the power plant is fully completed 7 such turbines and generators will be operated here.

In the meantime work on the temporary dam up in the center of the river was commenced in October 1939, after which construction on the concrete dam was begun. And following the completion of the concrete dam, installation work on turbine and motors within the power plant was started. Although a flood which occurred in August of the same year caused serious damage, all construction work was steadily pushed forward, and at beginning of August this year the first, second and third sluices were closed. Today a magnificent sight of 2,000 tons of water flowing over the dam per second can be seen.

On August 25 a test operation was made on No. 1 generator. Transmission of hydro-electric power from Shuifeng to Anshan started in the early part of September through the transmission line constructed between these two points by the Manchurian Electric Corporation.

No. 1 and No. 2 generators have started transmission of hydro-electricity after conclusion of the test operation, while No. 3 generator will start operating before the end of this year. The remaining generators will be completed within the next 2 years.

North China Company Increases Capital

In an endeavor to spur the industrial development movement in North China and also to extend more financial support to subsidiary firms, the North China Development Corporation has recently unofficially decided to increase its capital by Y.150,000,000, reports the Yomiuri. The bill regarding the amendment of the North China Development Corporation Law will be submitted for approval to the coming session of the Imperial Diet.

At present the semi-governmental firm is capitalized at Y.350,000,000, with Y.218,000,000 paid up. Out of the total 7,000,000 shares of the company, 3,500,000 is in the possession of the Government; 92,659, the Military Aid Association; 80,000, the Sumitomo Metal Industry Company; 74,680, the Sumitomo Honsha; 135,640, the Mitsui and Company; 40,000, the Sumitomo Mining Company; 67,680, the Mitsui Mining Company; 33,950, the Japan Iron Works; 31,100, the Dai-Ichi Life Insurance Company; 31,100, the Meiji Life Insurance Company and 31,100, the Japan Life Insurance Company.

The whole amount of new stocks which will be issued under the capital increase plan is expected to be subscribed to by the Government. The plan has been pending since last year when the necessity of transforming Government's loans to the North China Development Corporation and its subsidiaries into stocks began to be realized among business and financial circles. A bill calling for the increase of the Government's holdings of the special corporation's shares was expected to be submitted to the 75th session of the Imperial Diet but various difficult reasons supplied a stumbling block in the way of the presentation. Negotiations are now being held between the Finance Ministry and the semi-governmental firm over the plan to boost the capital, but it is understood that the Ministry will approve the scheme in the near future.

The Law relating to the Toa Kaiun Kaisha calling for the reorganization of the steamship company into a special corporation which passed the 75th session of the Imperial Diet became effective on August 28. Under the new law, the capital of the shipping company which is monopolizing the marine transportation service connecting Japan and China will be increased from the present Y.73,000,000 to Y.100,000,000, and the new stocks are to be taken up by the present shareholders.

TRADE

China's Silk Exports

POSSIBLE shortage of raw silk in America revives the hope of Chinese silk producers and exporters who, despite war conditions, have tried to improve and increase Chinese silk production as well as to find means to export it.

The Foreign Trade Commission spent $1,700,000 for the latter half of 1940 and the earlier half of 1941 on the improvement of Szechwan silk and to stimulate production. The Women's Advisory Committee of the New Life Movement Association maintains experimental stations in seven west Szechwan cities, with Loshan (Kiating) as center, to introduce new strains and new methods of raising silkworms and controlling diseases.

Silk used to be one of China's leading export products. Export, which declined after 1929 as a result of world depression and Japanese competition, picked up after the Chinese Government began to provide funds and technical advice, with experts sent by the League of Nations, to improve sericulture. The outbreak of hostilities at Shanghai in 1937 adversely affected Chinese silk export which came chiefly from southern Kiangsu and northern Chekiang. Silk export in that year was $53,171,845, or 5.5 per cent of the total exports of $838,255,705. It was only $4,200,000 less than the 1933 figure of $57,300,000, the all-high in the years immediately before the war.

Increased Export

The evacuation of southern Kiangsu and northern Chekiang in the winter of 1937-1938 and the general dislocation following Japanese occupation of Nanking caused, among other things, a drop of silk production and export. In 1938, it represented only 4.4 per cent of China's total exports. An upward trend, however, appeared in 1939 when sericulture began to revive in the Tai Lake basin and in Szechwan. Export that year was 13.9 per cent of the total. The percentage increased further to 14.25 in 1940.

Value and proportion of Chinese silk export in the last four years were as follows:

Year	Silk Exports	Total Exports	Per Cent
1937	$53,171,845	$838,255,705	5.5
1938	37,700,605	762,641,058	4.4
1939	142,350,802	1,027,246,508	13.9
1940	280,910,285	1,970,120,647	14.25

Although the value of Chinese silk exports increased spectacularly, volume decreased during the period.

White raw silk represents the major portion of Chinese silk exports, followed by yellow raw silk, wild raw silk, and raw silk from doupions. Cheap silk waste and cocoon strippings are exported in large quantity. After the outbreak of the war, the export of raw silk reeled from doupions remained fairly stable in volume. That of white raw silk and re-reeled white silk increased steadily, the 1939 white raw silk figure being about five times that of 1937, and even the lean year 1940 nearly doubled that of the first war year, while the 1939 re-reeled white raw silk figure was six times, and the 1940 figure three and half times that of 1937. The export of steam filature white raw silk dropped sharply in 1938 after the destruction of Shanghai, Wusih, Hangchow, and Huchow filatures. Production and export, however, gradually picked up in the next two years.

The same situation applies to yellow raw silk, as not re-reeled and re-reeled silk is manufactured by native silk farmers while silk reeled in steam filatures is produced in modern factories. The war shifted silk processing to private homes rather than to factories. As to wild raw silk, it is produced mainly in Shantung and Honan war areas, at present controlled by the Japanese.

Hongkong-Export Center

Before the war, most of China's silk export went to Hongkong (for transhipment), the United States, France, and then Japan, Italy, and the South Seas. Since the war, the bulk of Chinese silk goes to the United States, France, India, Burma, and England. A portion goes to Japan from Shanghai where the Japanese have control over filatures in occupied areas.

Different kinds of silk have their own favorite markets. White silk is mainly exported to America, France, and Hongkong (mostly for re-export). About one fourth of the annual total is sent to America, and one fifth to France, the rest is divided among England, India, Germany, Egypt, Indo-China, and other countries. Since the war, most of the Chinese white silk goes to

America, representing two thirds of the total white silk exports.

India and Burma absorbed most of the Chinese yellow silk export. About half of the total went to the two tropical Asian countries. One fourth went to France and one to America. Since the war, half of the yellow silk export goes to Burma, with India and France taking a considerable share.

Before the war, more than 1,500,000 kilograms of wild silk were exported each year, mostly to Japan, America, and France. Since the war, however, the main wild silk producers—Shantung and Honan—have become war areas where most of the output is seized by the Japanese. Export of Chinese wild silk dropped considerably—from the 1937 figure of 79,584 kilograms to 35,868 kilograms in 1938, 31,498 kilograms in 1939, and 29,306 kilograms in 1940. There is little prospect of a large increase in the near future although the Chinese Government has launched a program to develop wild silk in Kweichow and Yunnan.

Export of silk reeled from doupions is also on the decline since the war. As against the prewar figure of 600,000 kilograms, the 1940 export amounted to only 55,762 kilograms. Most of it went to India and Egypt.

Most of the Chinese silk exports pass through Shanghai as the port is the natural outlet for the silk producing provinces of Kiangsu and Chekiang. In the last few years, the National Government has been promoting sericulture in the southwest, especially Szechwan and Yunnan, and exports its products over the Burma Road.

Silk Production in Szechwan

Szechwan's silk production this year is expected to be increased by 18,715 piculs (2,168,650 pounds) as a result of the promotion efforts of the Ministry of Agriculture and the provincial reconstruction department.

The nationwide promotion scheme, which centers on Szechwan Province, calls for establishing nurseries of 3,000 *mow* (500 acres). These nurseries will grow 64,500,000 mulberry seedlings. This year's program also includes an increase of 10,000 sheets of eggs and the improvement of 800,000 sheets of eggs which, the authorities believe, will help raise Szechwan's silk production for 1941 by 19,715 piculs.

The ministry plans to organize a special silk affairs commission to deal with all phases of sericulture in Szechwan. Five promotion districts have been selected. In each district subcommittees will guide the farmers in silkworm raising, mulberry growing and silk making.

To cope with the growing demands for Chinese silk abroad, the Szechwan Silk Company has decided to increase its capital from $4,000,000 to $12,000,000. Its silk production plan stresses both quantitative increase and qualitative improvement in order to help regain China's former silk market in the world.

New Silk Center

The next important silk producing center in west China is Sichang in southern Sikang Province. Probably many have heard of the famous Silk Road to Central Asia through China's northwest frontiers. Little known is the fact of another route which crossed her southwest borders to southeastern Asia. Accrding to records, the district around Sichang used to export most of its 2,000 piculs (220,000 pounds) of raw silk every year to Burma and India over this route via Yunnan. But in recent decades this trade had dwindled considerably.

The natural environment in the Anning River Valley is such that it renders the Sichang plain particularly suitable for the development of sericulture. Climatically, it is never severely cold in the winter nor unbearably hot in the summer. The air is pleasant and dry, always retaining just the right amount of moisture for the rearing of silkworms. As to the soil, it has all necessary ingredients for the growth of mulberry trees.

Experiments have shown that there can be as many as four rearing of silkworms a year in southern Sikang. The silk season extends from March to November. In other words, for a period of nine long months there can be a continuous flow of fresh silk. This is more than any other known silk-producing center in China is capable of doing.

Three Year Plan

A three-year plan has been worked out whereby southern Sikang is to produce 5,000 piculs (550,000 pounds) of improved raw silk for export by 1942. However, several prerequisites have to be fulfilled first. A survey conducted in 1939 shows that young mulberry trees have to be cultivated, and new improved silkworm eggs to be prepared and distributed. All this naturally takes time.

Two organizations are engaged in this silk expansion program on the spot. The first one is the Sichang Model Farm. Last year, it cultivated 200,000 mulberry saplings, grafted over 1,000 old mulberry trees with an improved variety and prepared over 1,000 sheets of improved eggs. Out of these products, it gave 20,000 saplings to the National Sikang Polytechnical School as a gift, distributed 8,800 saplings to farmers. It also distributed 800 sheets of improved eggs for extension purposes in Lichow, where it set up an office to guide the farmers in raising silkworms.

The above-mentioned National Sikang Polytechnical School is the other organization which has put its weight behind the silk project. In addition to its sericultural department which serves as a training center for personnel, it cooperates with the Sichang Model Farm in preparing improved eggs. It has established two extension offices and organized six silk producers' cooperatives.

Furthermore, the polytechnical school has its own mulberry trees nursery with 1,500,000 saplings of an improved variety, and a factory capable of manufacturing 6,000 sheets of improved eggs every year. Also due to its promotion efforts, farmers in southern Sikang had their first satisfactory experience with raising silkworm in the autumn.

The 800 sheets of improved eggs distributed by the school in the spring and autumn last year yielded approximately 100 piculs (11,000 lbs.) of cocoons. As southern Sikang has no modern reeling facilities, the school recently took the lead in erecting a model filature in Lichow. The resultant raw silk, weighing ten piculs, was found of a quality high enough for export to the United States.

This year, the school distributed 4,000 sheets of improved eggs in the spring and another 6,000 sheets in the autumn. The quantity of cocoons and raw silk expected from the two rearings will thus be increased by more than ten times. The latest plan is to erect one small filature in each of the districts where the six silk producers' cooperatives are located.

Southern Sikang is collectively known as the Ning District. North of it, still within Sikang but on the edge of the Chengty plain, lies the Ya District. Here another silk center is gradually taking shape. In the spring of 1940, a loan from government banks enabled the establishment of the Sikang Sericulture Improvement Station in Hanyuan. Its nursery equipment is capable of turning out 30,000 sheets of improved eggs a year. It actually manufactured over 5,000 sheets last autumn and 15,000 sheets this spring. In addition, last spring 5,000 mulberry saplings were imported from a silk-producing district in southern Szechwan. Within two years, leaves from the improved mulberry trees will be sufficient to feed silkworms from 20,000 sheets of eggs.

Meanwhile, the station has set up an extension office in Fulin, a substantial rural town in Hanyuan. Recently, another loan was secured from the government banks for extension purposes.

Japan's Aircraft Industry

(Continued from Page 37)

Russo-Japanese War (1904-05) and later entered the aircraft field. The concern, together with Mitsubishi Heavy Industries, are the two big establishments at Nagoya.

The Nippon Musical Instruments Company at Hamamatsu is the oldest and biggest producer of pianos and other musical instruments. It is now noted for its efficient propellers, and in this respect even Mitsubishi, Nakajima, Kawasaki and Kawanishi are no match for the firm.

Another propeller maker is the Sumitomo Metal Industry Company. It is interesting to note that the Sumitomo interests cannot undertake aircraft business on the "through-process" basis probably because they have no large shipyard facilities unlike Mitsubishi and Kawasaki. The same can be said of Mitsui.

The Watanabe Iron Works too, is making good propellers and other aircraft parts. The Hitachi Aircraft Company was established by Hitachi, Ltd. by taking over the engine department of the defunct Tokyo Gas and Electric Company. The Showa Airplane Industry Company is making only parts and accessories. Although it was once headed by a capable Mitsui man like Tamaki Makita, it is not necessarily under the orbit of Mitsui. The Nippon Kokusai Aircraft Industry Company is backed by Kanobo and Terada interests: the Tachikawa Airplane Company by Okura and Sumitomo: and the Okamoto Industry Company by Furukawa. The Nippon Airplane Company is making engines. The Tokyo Measuring Instruments and Fuji Aircraft Meters companies are noted for their efficient aircraft gauges (the latter is financed by Furukawa). The Manchuria Airplane Company was established in 1932 as a special company under Manchoukuo law.

CHINA TRADE

Distribution of United States Imports in China

By JOHN F. SHAW

(U.S. Foreign Commerce Weekly)

JAPANESE occupation in China has placed Japan's military forces in control of the chief trade centers and the main communication lines in an area extending from the five northern Provinces of Suiyuan, Chahar, Hopeh, Shantung, and Shansi to China's southern ports of Canton and Pakhoi, and including control of the Yangtze River up to Shasi and Ichang. In this populous section were centered practically all of China's pre-war industries and developed resources. In this area the bulk of China's pre-war imports from the United States was consumed.

Following the collapse of military resistance at Shanghai and Nanking in 1937, refugee merchants and industrialists moved some of China's modern plants with them into the west. The bulk of this equipment, however, had to be left behind. Today those enterprises remaining, other than those within the foreign concessions, are serving Japanese interests, either directly or jointly with their Chinese owners.

Imports of raw materials from the United States into the occupied areas, except for those goods consumed in factories in the foreign concessions, may be assumed, for the most part, to be utilized in Japanese-controlled plants. Finished goods imported into these areas from the United States are subject to the approval of Japanese authorities and are permitted generally only if satisfactory to Japan's economic aims.

New Industries in "Free" China

Unoccupied China, embracing about 90 percent of China's total area, including Mongolia, Sinkiang, and Tibet, has today assumed the burden of supporting the present Government of "Free" China. In this comparatively undeveloped section, remote from the country's seaports and former centers of trade, new industries are being established which require American machines and raw materials. The thousands of refugees who made the trek to the west need many types of foreign-produced consumption goods pending the development of local supplies. Today but few supply lines for trade intercourse with other nations remain open.

In view of this situation and the declared policy of the United States to aid "Free" China, an examination of the extent to which China's purchases from this country are being imported into unoccupied China or into occupied China is of particular interest.

Shanghai Receives Bulk

Exclusive of all unrecorded imports—and the ingenuity of the Chinese has undoubtedly delivered considerable American merchandise into areas not controlled by the Japanese—only 12.8 percent of China's imports from the United States were recorded by the Chinese Maritime Customs as entering through unoccupied ports in 1939, and 10.7 percent in 1940. This trade represented a value of 11,065,015 gold units and 17,281,796 gold units, respectively. During this time the status of the unoccupied ports remained unchanged except for the Yangtze River ports of Ichang and Shasi, which were occupied by the Japanese in June 1940. (See accompanying table.)

China's Imports From the United States in 1939 and 1940, Showing Distribution as Between Occupied and Unoccupied Ports.

Item	1939	1940
	Gold units*	Gold Units*
Grand total of imports from the United States†	86,249,981	160,873,991
Total United States† goods imported at Shanghai	47,415,203	87,213,506
Percent of grand total	(55%)	(54.2%)
Total United States† goods imported at Japanese occupied ports‡ other than Shanghai	27,769,763	56,378,689
Percent of grand total	(32.2%)	(35.1%)
Total United States† goods imported at unoccupied ports§	11,065,015	17,281,796
Percent of grand total	(12.8%)	(10.7%)

*Customs gold unit: The following were the average equivalents of the Customs gold unit in United States dollars for valuation purposes at Shanghai: 1939, $0.75007; 1940, $0.67725.

†Imports from the United States Pacific Territory and possessions are not included in imports from the United States. The value of this trade is insignificant.

‡For purposes of this study the following ports have been considered as Japanese-occupied: Chinwangtao, Tientsin, Lungkow, Chefoo, Weihaiwei, Tsingtao, Ichang, Shasi, Hankow, Kiukiang, Santuao, Foochow, Amoy, Swatow, Canton, Lappa, Kongmoon, Samshui, Kiungchow, Pakhoi. However, Ichang and Shasi were considered as unoccupied during 1939, and imports into these ports during this year were listed with the unoccupied ports. Pakhoi, although considered as an occupied port in this study, has also at times been open for trade with "Free" China.

§The following ports have been considered unoccupied: Chungking, Wanhsien, Ningpo, Changsha, Wenchow, Kowloon, Wuchow, Nanning, Luichow, Mengtze, Szemao, Tengyueh, Lungchow. Wenchow, Nanning and Lungchow are ports which have been at times in the possession of the Japanese, but not for long.

Source: The Trade of China, 1940, Introductory Survey, the Maritime Customs.

Of the 87.2 percent and 89.3 percent of United States goods passing through Shanghai and Japanese-occupied ports in 1939 and 1940, valued at 75,184,966 gold units and 143,592,195 gold units, respectively, more than one-half was entered at Shanghai. Because of the special position of the International Settlement, and its large consumption of United States merchandise, exceptional consideration should be given to its imports from this country.

The table shows that in 1939 Shanghai took 55 percent of China's total imports from the United States, valued at 47,415,203 gold units, compared with 54.2 percent in 1940, valued at 87,213,506 gold units. But Shanghai's imports of certain products, such as raw cotton, wool, certain textiles, foodstuffs, chemicals, pharmaceuticals, and paper products, represented an even larger percentage of China's imports of these commodities. Items representing finished manufactures were largely consumed by the local population, and much of the raw materials was used in non-Japanese factories operating in the foreign concessions.*

Shanghai's Trade with Interior

The extent to which products imported into Shanghai for distribution to points in the interior, and the extent to which goods manufactured in the foreign settlements from American raw materials were re-exported to unoccupied China, is not known—but Japanese authorities at Shanghai have tended, wherever possible, to make it increasingly difficult, and in many cases impossible, for American and other non-Japanese companies to carry on their transactions with the interior areas.

According to a leading article in *Finance and Commerce* (British, Shanghai) in its December 25, 1940, issue—

> As far as foreign imports are concerned, Shanghai houses will have to sell to a Japanese firm or nominate a Japanese firm to act as their agents. No foreign firm may sell imported goods direct in occupied areas, and the distributing business of foreign importers with their long-established branches is gradually coming to an end.
>
> The quantity of foreign goods and the kind of articles desired are arbitrarily fixed. Japanese trade bureaus have been set up to determine how much is to be imported, and to regulate prices. The control is said to be due to "military necessity" in order to prevent guerrilla bands from obtaining supplies.

During the first part of the year 1940, industrial output at Shanghai was reported at high levels, as it was possible to ship to the Chinese-controlled interior quite freely through coastal ports to the south. In July, however, when the Japanese authorities imposed a blockade of the coastal ports through which products from Shanghai were passing, a curtailment was bought about in industrial production.

Late in the year new routes of ingress for Shanghai-manufactured goods were developed via Hongkong into unoccupied regions. Because of the manner in which goods are moved from Shanghai, through military and naval barriers into "Free" China, nothing is known of the volume attained by this trade. Exports of Shanghai's manufacturers to occupied areas were less restricted, but, likewise, no estimate of the size of this trade could have any pretensions to accuracy.

Raw Cotton Leads

China's chief imports from the United States, on the basis of commodity groups and in order of importance, are: raw cotton, cotton yarn, and thread; metals and ore; cereals and flour; candles, soap, oils, fats, waxes, gums, and resins (mainly petroleum products; tobacco; vehicles and vessels; books, maps, paper, and wood pulp; chemicals and pharmaceuticals; sundry (principally rubber) products; and machinery and tools. An examination of these commodity groups on the basis of port-of-import reveals a number of interesting features in connection with China's present trade with the United States.

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*Large proportions of "Free" China's purchases from the United States are for the order of the Chinese National Government, and these do not appear in the Maritime Customs figures. This partially accounts for the apparently small volume of recorded imports.

The largest item imported from the United States in 1940 was raw cotton, valued at nearly 34,780,670 gold units. Practically 80 percent of this was imported at Shanghai, but large quantities were also imported at Tientsin and Tsingtao. This product has been required for China's most important industry, and most of the imported supplies have been consumed in mills along the coast, where at the outbreak of the war 90 percent of Chinese cotton-textile production was located. These mills are all now in Japanese hands, with the exception of those destroyed or those located in the foreign concessions.

Only in the Shanghai foreign-concession areas have the Chinese been able to retain control of any large number of the manufacturing establishments that formerly belonged to them. In Shanghai, prior to the outbreak of hostilities, there were 2,600,000 cotton spindles in operation. Of these, Japanese interests controlled 50 percent, Chinese 42 percent, and British 8 percent. In July 1940, of the 2,200,000 spindles in operation in Shanghai, 60 percent were Japanese-controlled, 27 percent Chinese, and 13 percent British.

In other industrial towns of the lower Yangtze region, where there were formerly 615,000 spindles operated by Chinese owners, at present 484,000 spindles are in operation—all Japanese-controlled.

Interesting also is the fact that Chinese textile mills in Shanghai have maintained a fair degree of activity in the face of current disruptive influences. In August 1940 the Japanese mills were operating at 60 percent of capacity and the Chinese at 70 percent.

Metals and Cereals

The second leading import from the United States included metals and ores, amounting to 29,322,019 gold units in 1940. Imports of iron and steel sheets and plates, bars, rods, and rails and aluminum made up the more important items. One-half of these products was imported at Shanghai, and nearly the same amount was imported at all other occupied ports, with only 2.4 percent being imported directly at "Free" China's ports. Imports at Japanese-occupied ports, other than Shanghai, were largely handled at Tientsin, where trade is strictly controlled by the Japanese-sponsored North China Political Commission through the Federal Reserve Bank of China.

Imports of American cereals and flour amounted to 20,031,727 gold units in 1940. Wheat-flour imports amounted to 87.5 percent of these imports, which together with wheat imports accounted for practically all imports in this group. These were largely imported through Tientsin, which exceeded Shanghai as a port of importation. Only 3.6 percent of China's cereals and flour imports were imported at unoccupied ports, while 85.1 percent were imported at Japanese-occupied ports, other than Shanghai, and 11.3 percent at Shanghai.

China's purchases from the United States of lubricating oil and greases, kerosene, gasoline, naphtha, benzine, and liquid fuel constituted approximately 76.7 percent of the import commodity group "Candles, soap, oils, fats, etc." This group was valued at 16,327,403 gold units in 1940. Japanese-occupied ports and Shanghai accounted for 84 percent of these imports, with Shanghai, Tientsin, Tsingtao, and Canton as the leading ports of entry. Imports at unoccupied ports amounted to only 16 percent of China's imports of these commodities.

Cigarette Industry

In 1940 leaf tobacco constituted 93.4 percent of China's tobacco purchases from the United States, which were valued at 13,646,200 gold units. Shanghai's cigarette production, which before hostilities accounted for more than 80 percent of the total for China, was in large measure responsible for the fact that China imported 96.8 percent of its United States tobacco at Shanghai. Only a small amount was imported at the other ports.

In Shanghai's cigarette industry the Japanese interest was originally small. Of the 31 Shanghai Chinese factories, 18 were located in Hongkew, and those which were not destroyed were taken over by the Japanese. Approximately 19 factories under Chinese control were in operation, however, in the International Settlement and French Concession during 1938.

Despite the ability of the Chinese to operate in the foreign concessions, it is now estimated that about 25 to 30 percent of Shanghai's total machine-made cigarettes were made by Japanese factories during 1939-40, as compared with 14 percent in 1938-39 and a negligible production prior to hostilities.

Unoccupied Ports Take Vehicles

In 1940 imports of vehicles and vessels from the United States amounted to the value of 7,885,049 gold units. Tractors, trucks, cars, busses, and parts and accessories were the chief items under this heading, amounting to 97.5 percent of the total. Shanghai accounted for about one-third of these imports; but entries at Kowloon were nearly as large, and this latter fact brought imports of vehicles and vessels at unoccupied ports, other than Shanghai, up to 43.2 percent of the total. In 1939 Lungchow was the principal port of entry, and more than 60 percent of China's imports in that year were entered at unoccupied ports. Approximately one-quarter of these items were entered at Japanese-occupied ports (other than Shanghai) in 1940 and one-fifth in 1939.

Books, maps, paper, and wood pulp imported from the United States amounted to 7,370,888 gold units in 1940. Printing paper, paperboard, and cigarette paper were the chief imports in the group, of which 86.9 percent was imported at Shanghai. That Shanghai assumed such an important position in 1940—a situation that was not true to the same extent in 1939—was possibly due to local shortages of cigarette paper and materials needed for packing. Imports at Japanese-occupied ports amounted to 10 percent of imports of these items, while imports at unoccupied ports reached only 3.1 percent.

Imports from the United States of chemicals and pharmaceuticals, amounting to 5,357,224 gold units in 1940, were handled largely through Shanghai. Two-thirds of China's imports were entered at this port, one-quarter at Japanese-occupied ports, and only a small percentage at unoccupied ports.

Machinery and tools imported into China in 1940 from the United States amounted to 3,511,155 gold units, of which 23.7 percent were imported at unoccupied ports, while 28.2 percent were imported at occupied ports, and 48.1 percent at Shanghai.

Sundry imports from the United States totaled 5,754,534 gold units in 1940; crude rubber, waste and old rubber, and rubber tires constituted one-half of these imports, of which 38.2 percent were imported at unoccupied ports, 34.6 percent at Japanese-occupied ports, and 27.2 percent at Shanghai.

Summary of Chief Trade

On the basis of the records of the Chinese Maritime Customs, nearly 90 percent of China's imports from the United States have been entered at Shanghai and Japanese-occupied ports during 1939 and 1940. More than half of this import business was handled at Shanghai, with Tientsin second in importance. Products entered at the unoccupied ports were relatively negligible; only in a few instances did they exceed the imports at Japanese-occupied ports

The unoccupied ports were the chief place of entry in 1939 for vehicles only, although sizable quantities of petroleum and rubber products and cereals and flour were also imported. In 1940 larger percentages of vehicles, sundry products (largely tires and tubes), grey cotton piece goods, and medicinal substances of small registered value were imported at the unoccupied ports than at either Shanghai or the Japanese-occupied ports. The size of these imports, however, did not exceed the combined total of imports entered at Shanghai and Japanese-held ports.

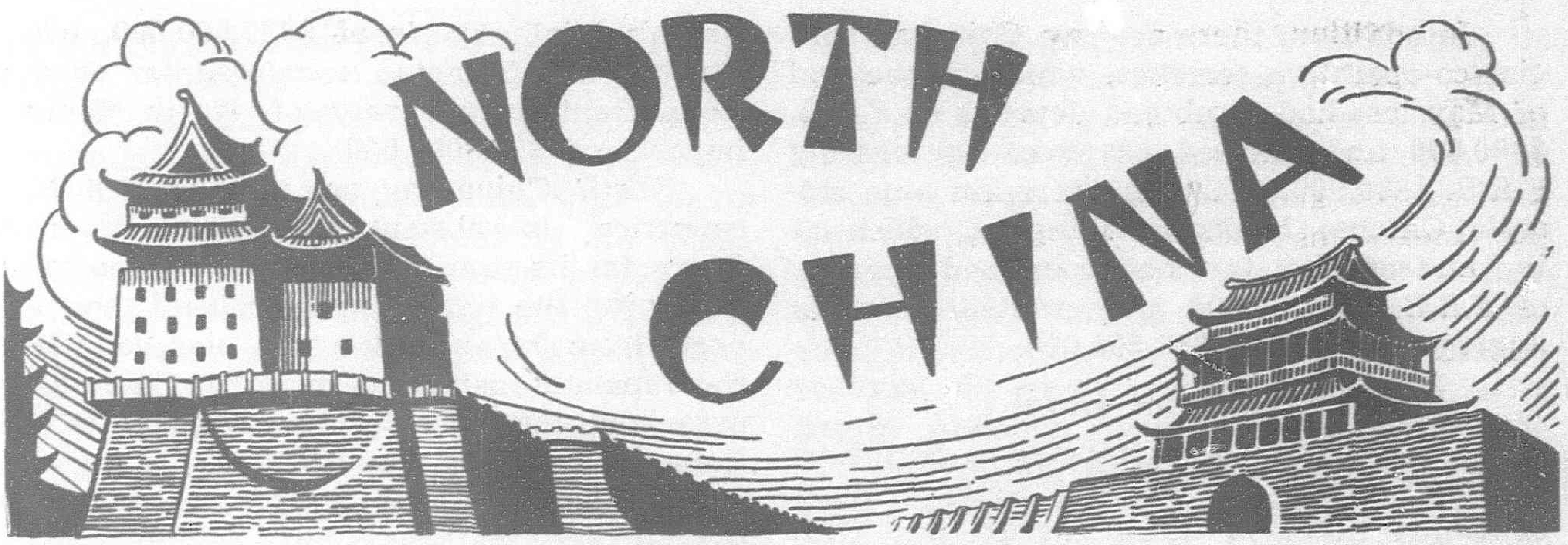
In China's trade Shanghai has continued to be the main port of entry for such staples as raw cotton, wool, tobacco, and sugar. In imports from the United States, specifically of metals and ores, timber, machinery and tools, foodstuffs, chemicals, pharmaceuticals, and many other commodities, Shanghai remains also the leading port, with more than 50 percent entered there. Imports into Japanese-occupied ports—which totaled nearly three times the imports at unoccupied ports—were handled largely through Tientsin and Tsingtao. Tientsin was particularly important as the port through which passed the bulk of United States cereals and flour. Large quantites of raw cotton, metals and ores, vehicles, and petroleum products also were handled through both those ports.

Russian Mines Menace Shipping

"Freedom of the seas can be affected by derelict mines laid insecurely," said an article in *"Japan Times and Advertiser,"* organ of the Japanese Foreign Office, warning the Russians to "prevent a recurrence of these dangerous occasions."

The Soviet Union itself will be affected by dangers to peaceful navigation through the capriciousness of mines and creation of dangerous waters, the paper continued, since shipping companies are not likely to run the risk of running cargoes into these waters.

"If any Japanese vessel in these neighbouring waters becomes an accidental victim of wandering mines of another State, there are likely to arise certain embarrassments which everyone wants to avoid."



Tsingtao Trade Condition

TSINGTAO, the gateway of North China is now incorporated as a special municipality under the jurisdiction of the Chinese national government at Nanking. Tsimo, a prosperous suburb of Tsingtao, is now part of the new Tsingtao, which covers an area of 520 square kilometers with a population exceeding 1,900,000.

The Japanese colony in Tsingtao numbers 36,000, more than double the population before the outbreak of the Sino-Japanese hostilities in July, 1937. The other foreign residents in the town total 1700 in number.

Shantung Province, in which Tsingtao is situated, has a populaton of more than 36,000,000, of which some 100,000 are accounted for by Japanese residents, who have settled at Tsingtao, Tsinan, Hsuchow and other points along the Shantung Railway and the Tientsin-Pukow Railway.

Japan Investments

Japanese investments in Shantung Province totalled Yen 250,000,000 before the outbreak of the Sino-Japanese conflict, but the figures have seen a remarkable increase in the past four years. Investigations made in June last year put Japanese investments in Tsingtao alone at Yen 268,000,000, while items of business handled by the Japanese numbered 1700.

The circulation of Federal Reserve Bank notes in Tsingtao has registered a steady increase since 1938. It stood at F.R.B. $18,000,000 at the end of 1938, jumped to F.R.B. $36,000,000 at the end of 1939 and again to F.R.B. $80,000,000 at the end of 1940. Circulation of the notes at present is estimated at a level of F.R.B. $90,000,000.

Results of the business of the Japanese managed banks in Tsingtao reflect a currency inflation as well as a phenomenal development of Japanese business activities. The three leading Japanese banks, the Yokohama Specie Bank, the Bank of Chosen and the Tsinan Bank have combined deposits of some Yen 150,000,000, while their aggregated advances granted reach some Yen 100,000,000.

The Shantung Industrial Company, Ltd., another Japanese concern, has granted advances between Yen 6,000,000 and Yen 9,000,000; the Tsingtao Credit Association, still another Japanese concern, some Yen 3,000,000 and the Tsingtao Mutual Credit Association, also a Japanese concern, some Yen 2,000,000.

Under the Capital Control Law, Japanese legislation is strictly enforced in Tsingtao, which is treated as part of the yen bloc, with the result that financing of a new business corporation is subjected to various restrictions.

Chinese Banking

The Chinese credit institutions in Tsingtao are now completely independent of the Chungking-controlled banks, having succeeded in attaining financial rehabilitation under the leadership of the Federal Reserve Bank of China. There are 10 Chinese banks in operation in Tsingtao, including the Federal Reserve Bank. These Chinese banks are improving their earning conditions year after year. The Chinese banks, excepting the Federal Reserve Bank, had combined deposits of F.R.B. $18,000,000 at the end of 1939 with their aggregated advances granted reaching F.R.B. $26,000,000. Those figures jumped to F.R.B. $25,000,000 and F.R.B. $30,000,000 respectively at the end of 1940 and again to F.R.B. $30,000,000 and F.R.B. $38,000,000 respectively at the end of May last.

In addition, there are two Chinese financial co-operative societies, which at the end of May last had combined deposits of F.R.B. $490,000 and granted advances aggregating F.R.B. $830,000. Further there are nine old-style Chinese banks in Tsingtao, which at the end of May last had combined deposits of F.R.B. $14,300,000 and granted advances aggregating F.R.B. $13,500,000.

High Price Level

A unification of currencies in Shantung Province under the Federal Reserve Bank of China notes is being carried out with satisfactory results, but in Shantung there is no exception to the high prices of commodities, which prevail throughout North China partly due to the unbalanced relations between the demand and supply of goods and partly to the old fapi which still remains in circulation in considerable quantities in the interior.

All Japanese merchandise exported to North China is subject to an additional assessment in accordance with the provisions of a departmental decree, promulgated in September last year, for the purpose of regulating the prices of goods destined for the yen-bloc countries.

In consequence, prices of commodities in Shantung and other parts of North China are entirely unaffected by the low price policy which is pursued in Japan, which fact adds to the costs of living among the people of the Japanese colony in North China as well as to the burden of the masses in North China, which depend upon Japan for the supply of their daily necessities.

The result is a marked rise in prices in Tsingtao. With April, 1936, as base, the average wholesale price index in Tsingtao stood at 404.4 in 1940, but the figures rose to 508.5 at the end of April last.

Trade Center

Being the natural ideal harbor that it is, Tsingtao is developing by leaps and bounds in its trade, both domestic and international, catering to the requirements of the hinterland market as well as to the entire Shantung Peninsula.

In China's foreign trade, Tsingtao occupies third place, being next only to Shanghai and Tientsin, and accounting for nine percent of the whole Chinese foreign commerce. Together with Tientsin, Tsingtao practically handles all North China's foreign trade. North China has six good ports, but in 1940 Tientsin and Tsingtao accounted for 40 and 31 percent respectively of North China's total exports of $327,000,000, while Tientsin and Tsingtao accounted for 66 and 22 percent respectively of North China's imports of $985,000,000.

North China, as one of the yen bloc countries, is absolutely dependent upon Japan for its supply of various commodities. Following the tightening of control over exports from Japan to the yen bloc countries, the Japanese merchants in North China have organized themselves into regional associations for handling imports from Japan.

In Shantung, with Tsingtao as its center, the Japanese merchants have set up a Shantung federation of import and distribution associations for the unification of imports and the distribution of Japanese merchandise in the peninsula. Imports from Japan represent more than 60 percent of Tsingtao's imports from foreign countries, with the result that the import market of Tsingtao is completely dominated by Japanese merchants.

It is a pity, however, that no action has been taken for the unification of imports into Tsingtao from other foreign countries as well as from Central and South China, because the control of prices of the imports from Japan alone would not be effective, if goods from other foreign sources as well as from Central and South China are left alone. The situation calls for early action.

Preparations are under way for setting up the machinery for the unified adjustment of exports from Tsingtao to all the yen-bloc countries, including Japan, Manchoukuo, Central and South China. In May last, an organization was formed for the unified handling of exports from Tsingtao to Manchoukuo.

Classified by merchandise, the Japanese merchants have also set up associations to handle exports from Tsingtao to Japan. These associations will be federated for the purpose of co-ordinating exports to Japan.

Similar machinery will be set up for the unified handling of exports to Central and South China. These bodies will be eventually unified for co-ordinating all exports from Tsingtao to the yen bloc countries.

Industry Expands

The Japanese are showing remarkable activity in Tsingtao's industrial field. The Japanese cotton interests have succeeded in reconstructing their mills in Tsingtao, so that 390,000 spindles and 7,000 looms, 60 percent of those in operation before the outbreak of the China affair have been reinstalled. Difficulty of obtaining raw cotton is compelling the Japanese mills to run at half the present capacity.

Milling and other industries are being maintained and expanded by the Japanese on the basis of the mills which were set up by them before the outbreak of the Sino-Japanese hostilities. Especially remarkable is the Japanese advance in poultry, tobacco, dyeing, weaving, bristle and ship-building industries.

Generally speaking, organized efforts are being made to seek the industrial development of Tsingtao with Japanese capital and technique, though there still remain some, powerful foreign concerns in connection with the poultry and tobacco industry as well as with steam navigation.

For the purpose of coping with the difficulty experienced in obtaining raw materials and also of ensuring the smooth distribution of products, an association is being set up in every industrial field in which Japanese are engaged. Rationalization of industrial management will be completed when those industrial associations are incorporated into a federation.

Natural resources in Shantung Province are being developed by the North China Development Company, with special attention focussed on the district round Tsingtao. The coal deposits in Shantung Province are estimated at 3,000,000,000 tons. In 1940, Shantung accounted for 50 percent of the entire coal output in North China. In the future, Shantung is expected to play an important role in supplying Japan with coal.

Cotton Production

Before the incident North China produced between 3,000,000 and 4,000,000 piculs of raw cotton, of which 1,600,000 piculs were produced by Shantung. In 1940, however, the output of the province hardly reached the level of 400,000 piculs, which was due to an uneven flow of the product to the market due to the disturbance still prevailing in the interior and bad weather conditions, together with official restrictions on the price of raw cotton.

The Japanese cotton mills in Tsingtao are dependent, therefore, upon countries abroad and Central and South China for their supply of part of the raw cotton needed. Consequently, serious attention is drawn to the necessity for increasing the production of raw cotton in Shantung Province.

Tobacco Leaf

The production of leaf tobacco in Shantung reached 8,400,000 *kamme* (one *kamme* corresponds to 3.75 kilograms) in 1936 and 12 million *kamme* in 1937, but it dropped to 8,200,000 *kamme* in 1938 and further to 5,000,000 *kamme* in 1940, for which decrease fluctuations in prices and the commercial crop, weather conditions and disturbances in the hinterland were responsible. Well informed people believe, however, that the tobacco output can be quickly restored to the pre-hostilities level with proper guidance given to the farmers.

The annual production of salt in Shantung averaged 450,000 tons before 1937. Its increased production is now being pushed by the Shantung Salt Industry Company for the purpose of suppling Japan with a larger quantity of salt.

Peanut Output

The peanut, a staple product of Shantung, is playing an important role in securing foreign currencies for Shantung. Its annual production averaged 500,000 tons before 1937, but the past four years since the outbreak of the Sino-Japanese hostilities have witnessed a decline in its annual output. The peanut production was 400,000 tons in 1939 and 350,000 tons in 1940.—*Oriental Economist.*

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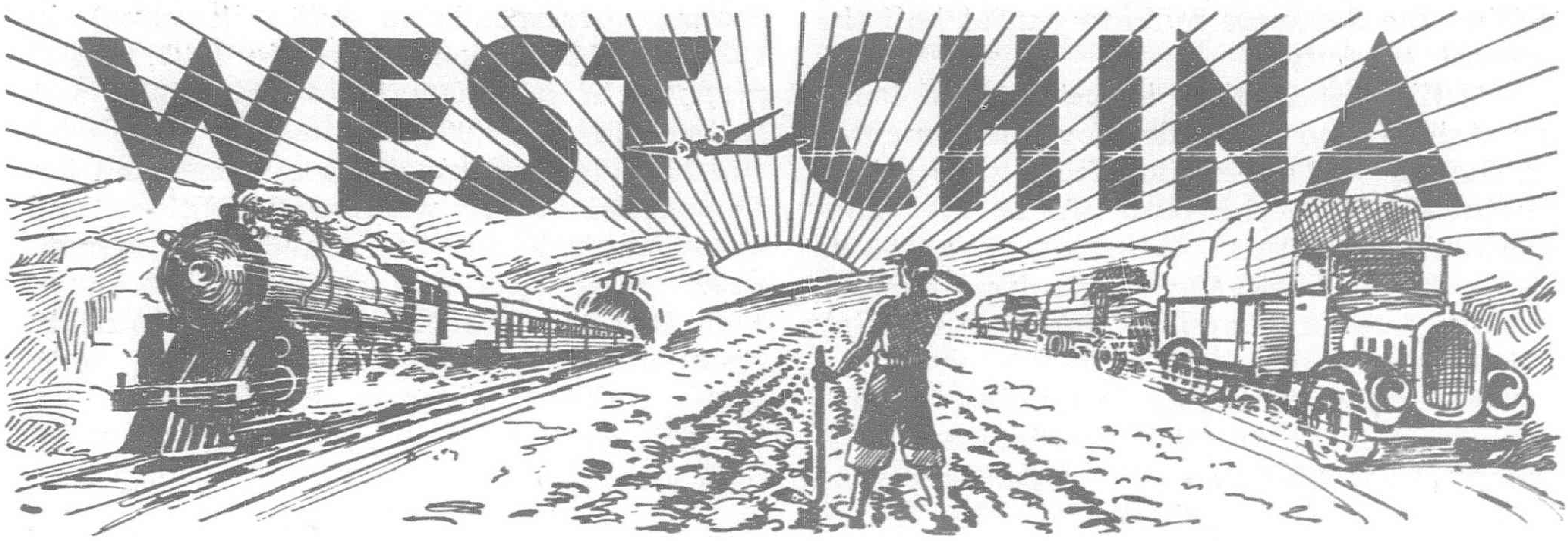

WEST CHINA

BY WONG WEN-HAO

(The Central Bank of China Bulletin)

Industrial Reconstruction

IN the course of last four years, serious efforts on the part of both the Government and the people have been made in building up an industrial base for the development of national defense economy. Before the war the vast interior provinces had been extremely backward in economic life and organization. Now these provinces have become new centers of China's industrialization. Mining and industrial productions n the interior are increasing. The relationship between Government and industry has been adjusted and rationalized. Although limited in scale because of the unavoidable restriction of transport and exchange in war time, the efforts of industrialization in the past four years have definitely borne fruit.

Early in August, 1937, a committee was formed whose function it was to help the factory owners in and around Shanghai to remove their machinery and equipment to places far away from the zone. In November, 1937, the Industrial and Mining Adjustment Administration was formed and the task of removing factories to the interior was entrusted to this new organization.

It needs hardly to mention that the shipment of the bulky factory equipments in war time was a tremendous task. All utilizable means of transportation, no matter how primitive they were, had to be used for this purpose. For instance, in the Yangtze River, industrial machinery and materials had to be sent upriver mainly by junks, as most of the steamboats were commandeered for military use. Transportation of such a kind was subject to all chances of loss and damage. Despite such difficulties the removal work was carried out with unusual efficiency.

In moving the factories, the Government paid special attention to machine works, electrical supplies plants, equipment of coal mines, factories of chemical products, spinning and flour mills, and other industries of strategic importance. A few cases may be mentioned as examples. Foremost among the list is the Han-Yeh-Ping Company, the largest iron and steel works in China. The important parts of the metallurgical equipment of this company both at Hanyang and Tayeh in Hupeh Province which included a total weight of over 40,000 tons were dismantled and moved into Szechwan. The Government also bought the blast furnaces of Liuhokou Company of Hankow and shipped it to Szechwan. With these equipments, an iron and steel industry has been started in the interior.

Upon to the end of 1940 there were altogether 450 industrial and mining units moved in with the Government's aid from the war areas, with a total weight of approximately 120,000 tons of machinery and materials and a total number of more than 15,000 skilled workers. Among the factories thus moved in, there are 181 machine shops, 29 factories manufacturing electrical apparatus, 56 chemical works, 22 food factories, 15 glass and pottery factories, 2 iron and steel works, a number of cotton mills and other industrial establishments. They are not located in one locality, but scattered in different areas throughout the southwestern and northwestern provinces.

Building Vast Hinterland

China's interior is rich in natural resources and human power. Realizing the gross mistake of centralizing factories in a number of small coastal cities, we have adopted a policy of decentralization. Altogether fifteen main areas have been chosen for development instead of centralizing efforts on a few cities. In each area, it is the first of the Government to erect new power plants so that electricity may be easily obtained for industrial use. Wherever old power plants are already in existence, financial and technical aid is given to them for extension and improvement. As there are great potentialities for hydraulic power development in southwestern provinces, careful surveys have been and are being made. Now the generating capacity of the electric power plants in the southwestern provinces has been increased by 25 per cent. over 1937 and an additional capacity of 20,000 kilowatts will be put into operation in the near future.

In order to minimize the losses due to air-raids, some of the power plants as well as many manufacturing factories have been installed in dugouts specially designed for them. The largest dug-out which houses one cotton mill has a space of 10,343 cubic feet. As those dug-outs are deep enough so that no bomb can penetrate them, manufacturing activities can be carried on even during the air-raid.

The Government has been making every effort to open up new coal mines as well as to encourage the expansion and modernization of older ones. Because of such efforts, the output of coal in the interior has increased from 3,668,000 tons in 1937 to 5,716,000 tons in 1940.

As machine-making is the foundation of all other industries, special attention has been focussed thereon. Machine-making plants have been increased in order to further the development of heavy industries. We have already mentioned that among the moved-in factories, machine shops occupy the first place so far as number is concerned. The Government has also set up the Central Machine Works, the biggest of its kind in Free China. It is now engaged in making turbo-generator sets, boiler plant, spinning sets and gas producers besides attending to the orders of the Munitions Bureau and other government institutions. A plant for assembling trucks will soon be constructed for immediate operation.

In order to supply raw materials to the machine shops and munition factories, iron and steel works must be erected. There have been established in Szechwan fifteen new small blast furnaces which are mainly responsible for the recent increase of pig iron production. Some other units of relatively larger scale are still under construction. A sponge iron plant is also being erected in Szechwan, and there will be set up one open hearth furnace and several Bessemer converters. A 20-ton blast furnace was first set upon and completed. Another 100-ton blast furnace is being installed and is expected to be ready for use in less than a year. The building for the steel works including several Martin furnaces is also in progress. Now already in operation in Szechwan Province are four electrical furnaces each producing from 3 to 5 tons of steel a day. In Yunnan Province, there are under construction one blast furnace of 50-ton capacity and several steel plants.

Among the heavy industries, one word may be said about the electrical equipment factories. Several electrical factories have been established. The largest of them is the Central Electrical Manufacturing Works. This factory consists of four plants, each specializing in a particular branch of manufacture. Their products include copper and iron wires, vacuum and gas filled lamp bulbs, radio receiving and transmitting tubes, military and ordinary telephone sets, exchange switch-boards, motors, generators, transformers, motor starters, switch gears and battery and dry cells.

Light industries are also necessary for satisfying the daily needs of the people. In order to counteract the Japanese attempt to economically blockade us, efforts have been made to make the interior as independent as possible in daily necessaries. One example may be cited for illustration. Before the war, there was no modern plant of spinning and weaving in the interior. During the last few years, more than 200,000 spindles have, however, been moved from the war zones to the interior. And about 120,000 spindles have already been in operation, producting 70,000 bales of yarns per year. The rest will be installed before the end of this year. It is estimated that compared with no less than 30,000 bales in 1938, it is a three-fold increase. As we still command a large cotton-producing area in Free China, the supply of raw materials for spinning is not a serious problem. Recently, a plan has been made to mobilize 500,000 women in Szechwan to take spinning and weaving as their vocation, so as to augment the total supply of cloth.

The above outline is a brief review of the work of industrialization in the interior. The tempo will, no doubt, increase in the future as new means of production are being continually accumulated through our own efforts as well as through imports from abroad. It is significant to point out that during the last few years, besides the machineries and equipments removed inland from the war zones, at least 20,000 tons of new machines and machine tools have been imported from foreign countries. It is clear that the natural resources in China can be even better developed, if we can avail ourselves of a greater amount of modern equipment and technical experience.

Promotion of Foreign Trade

There are a number of minerals which are more than sufficient for our own use and therefore can be exported in large volume. Among these minerals the most important are antimony, wolfram, tin and mercury. Indeed, with regard to antimony and wolfram, China has been the principal source of supply in the world market. Before 1936 there was no definite system of control in the export trade. In the beginning of 1936, by order of the Government, the control of antimony and wolfram was entrusted to the National Resources Commission. The control of tin and mercury did not take place until 1939. Since then similar control was extended to other minerals of export such as molybdenum, bismuth, alunite, etc.

One object of control is to improve the quality of the minerals, so that their sales may be increased in the foreign market. Another object is to increase the production of these minerals. At present, the annual output of antimony is about 7,000 tons, that of wolfram about 9,000 tons, and of tin about 17,000 tons. In the last figure, native tin is included.

Our general trade policy is to promote and improve our economic relations with other countries on reciprocal and supplementary basis. There are a good number of agricultural and mineral products which can be exported in large and increasing volume. On the other hand, China needs to import a good amount of machinery and chemical, metallurgical and mechanical materials for industrial reconstruction. We like to increase both our export and import trade and are glad to promote trade relations with friendly Powers.

A sound policy of foreign trade must go together with a proper development of our natural resources. It is beyond any doubt that among the Far Eastern countries, China is the richest. In order to develop her resources on a large scale, up-to-date methods and equipment are, needless to say, urgently required. Any foreign assistance and cooperation which are aimed at the full utilization of China's resources for the benefit of both China and the world will therefore be heartily welcomed.

Policy of Reconstruction

It is evident that industrialization is the most important part of the reconstruction work in China. The great agricultural and mineral resources in the country can be duly developed by the process of industrialization. It should also be admitted that while the work of industrialization should and can be started during the war of resistance, more systematic and extensive construction must be reserved to some time later when conditions will not be disturbed by military actions. Under such conditions the policy of the Chinese Government is to attempt to establish some fundamental measures of industrialization and necessary organs for the actual carrying out of the work during the war period so as to facilitate their future development.

According to the policy now actually followed, the Government is to lead in the founding of heavy industries and the creation and development of main industrial areas. At the same time, every possible encouragement should be given to private enterprises and there should be all possible cooperation between Government-operated undertakings and private business firms, making the best effort to avoid any needless duplication and undue competition.

Now in order to facilitate the carrying out of the reconstruction work, a number of organizations have been erected or strengthened since the beginning of the war. The institution, entrusted by the Ministry of Economic Affairs with the responsibility of operating and supervising the state-owned (entirely or partially) basic industries in China, is the National Resources Commission. At present, there are under the control of the Commission 32 units of industrial enterprises, 42 units of mining, and 19 units of electrical enterprises. Projects of such industrial reconstruction work are to be launched each year by the Commission.

While the National Resources Commission is responsible for the development of state-owned industrial and mining enterprises, its sister organ, the Industrial and

Mining Adjustment Administration is in charge of promoting the private concerns. The role played by this Administration in removing the industrial machinery and equipment from the war areas has already been pointed out in the foregoing paragraphs. It only needs to mention here that the Administration has also set itself to the task of choosing and allocating new localities as well as newly planned factories, extending loans to them at a low rate of interest for their rebuilding and technical improvements, supplying them with machine tools and important raw materials at cheaper prices, giving them technical advice, strengthening their organization, and promoting new investments.

The special corporations established in war time are too numerous to be enumerated here. Notable among them are the following firms: The North Yunnan Copper Mining Corporation with a capital of $2,000,000 is to improve copper mining and smelting in Yunnan Province. The Pingkwei Mining Administration capitalized at $5,000,000 is to promote mining industry in the eastern part of Kwangsi Province and has already succeeded in considerably raising the standard of tin. Similarly, the Yunnan Tin Consolidation Corporation, capitalized at $50,000,000, is devoted to the increase and improvement of tin in that province. The Hwa Chung Cement Manufacturing Corporation with a capital of $5,500,000 is the main producer of cement in western Huan, supplying cement to many construction works including the Kwangsi Railway. The Chungkwo Wool Spinning and Weaving Corporation with a capital of $5,000,000 will have, when completed, the greatest plant of its kind in the interior.

Despte the unavoidable vicissitudes of war, the National Government has endeavored to launch industrial projects for today and to formulate industrialization plans for tomorrow. To carry out the policy of industrial reconstruction the Ministry of Economic Affairs, other Government organs and the specially organized corporations have already contributed a good share to the progress of the reconstruction program. Of course, there are many difficulties under war conditions; but strenuous efforts are being continuously made in meeting and overcoming them. It is confidently expected that industrial production in Free China will be further expanded in the next few years.

Control of Japan's Foreign Trade

(Continued from Page 39)

Problem Research Chamber, within the Finance Ministry, to which will be entrusted the assessment of State wealth, and compilation of economic statistics.

A new Materials Mobilization Plan for the second quarter of the current fiscal year, prepared by the Planning Board, was approved by the Cabinet Council on August 22. The keynote of the plan, it is reported, is the expansion of defense facilities, the effecting of complete self-sufficiency in vital materials within the East Asia Co-Prosperity Sphere, and the supply of at least the essential minimum of daily necessities. It was stressed that there will be no obstacle to the carrying out of the plan, in spite of current international difficulties, since these difficulties were foreseen.

In retaliation against the British and American freezing of Japanese assets, the Finance Ministry decided to put the transfer, purchase, and sale of patent rights by foreigners under a strict license system. Under the Foreign Exchange Control Law, it is reported, the Finance Ministry has also prohibited the transfer abroad of sums paid to foreigners in exchange for patent rights.

The Patent Bureau is also considering revision of existing patent regulations, changing the period of validity of patent rights held by foreigners to 15 years from the date of application, instead of 15 years from the granting of the patent, according to Domei. This, it is believed, will be much to the advantage of the Japanese inventor, who under the existing regulations is forced to wait during the period of examination of foreigners' inventions before his own can be licensed.

COMMUNICATIONS

Rail And Road Communications In West China

THE appointment of Mr. John Earl Baker, formerly director of the American Red Cross in China, to take charge of the transportation on the Burma Road is of some significance. It represents the attempt of the Chinese Government in Chungking to maintain a speedy and smooth transportation of goods between China and the outside world. At present the Burma Road is functioning at about a third of its capacity. Stock shipped from abroad, including purchase under the United States loan agreements, have piled up at Rangoon while commodities ready for export are accumulating in the interior. Moreover the situation is becoming increasingly serious as the cutting of the Indo-China railroad and Japanese attempts to stop smuggling through the coastal ports have left China with only two routes to the outside world—the Burma Road and the highway to the Soviet Russia. The latter has proved to be of little value at the present time following the outbreak of hostilities between Germany and Soviet Russia.

Many problems will have to be solved before the Burma Road can be made more effective according to a special article of the Far Eastern Survey. Recent reports state that owing to improved management and increase in trucks, 10,000 tons of freight are now going monthly from Lashio to Kunming. Until very recently, however, imports were closer to 6,000 tons and not more than 1,500 trucks were available for use on the highway. It is further stated that if more trucks were commandeered, as much as 30,000 tons could be carried each way monthly. In order to bring this about trucks would have to be obtained from other parts of China—no doubt some could be shifted from the Indo-China roads—and from abroad. The United States loans could be used for this purpose, as they have been in the past; approximately 32 per cent of the first loan was employed to purchase automative equipment including 3,600 trucks.

Another important problem to be met is the scarcity of gasoline. One of the present difficulties is that a truck fully loaded with a cargo of petrol consumes 20 per cent to 25 per cent of its cargo between Lashio and Kunming (35 per cent of the journey is extended to Chungking). When it is considered that these figures are doubled for the round trip, the surplus can scarcely be regarded as impressive. Moreover, the cost of transporting gasoline, as well as all other commodities, is enormous.

The deficiencies of the Burma Road are likely to be felt ever more keenly if China tries to avail herself of the opportunities offered by the Lease-Lend Bill. When all is said and done, the fact remains that the Burma Road was never intended for very heavy traffic. According to the original idea, the Yunnan-Burma railroad was to serve as the main artery between Lashio and Kunming. Started in 1938, the work on the railway has been retarded because of the lack of equipment and reluctance of the British to build from their end; recent reports state that this reluctance have been overcome. The Chinese Government is now attempting to push the railroad completion and has announced a U.S.$10 million bond issue which, together with U.S.$15 million to be obtained elsewhere, will be used to finance the line.

Despite all the difficulties to carry out any construction work of a large scale in war time, the Chinese Government in Chungking has done immense work in the development of communications in general in West China. The following survey of C. Y. W. Meng gives a detailed review of the railway and highway construction in Southwest China during the past four years.

Railways

Before the war, with the exception of the 300-kilometer railway connecting Kunming, capital city of Yunnan Province, and French Indo-China, constructed more than thirty years ago, the vast Southwest China with a territory of 1,757,246 square kilometers, was "railroadless."

But shortly after the outbreak of hostilities, the Hengyang-Kweilin Section of the Hunan-Kwangsi Railway was completed at a record speed of one kilometer per day, thus opening a new era in the history of railway development in China. The central and the extreme southern China are now linked by rail for the first time in history!

More important is that this railway is now being extended to the French Indo-China border, thus giving the central part of China an ample possibility for a direct access to the sea-coast in the South.

At present, other railways which are under construction in the Southwest are: the Szechuen-Yunnan Railway, the Szechuen-Kweichow Railway, Chungking-Chengtu Railway and the Yunnan-Burma Railway. The Chinese engineers are literally racing against time to complete these lines in 1941.

A. The Szechuen-Yunnan Railway: The construction of the Szechuen-Yunnan Railway has its inception in the proposal submitted to the National Government by General Liu Hsiang, the late chairman of the Provincial Government of Szechuen, immediately after the outbreak of the war. In his elaborate proposal on the "Development of Szechuen Province as the National Reconstruction Center during the Present War of Resistance against Japan," the late General Liu Hsiang was reported to have proposed, among many other reconstructive projects, the early construction and completion of the Szechuen-Yunnan Railway, from Ipin (or Suifu) to Kunming, connecting the southern part of Szechuen and Kunning over a distance of 650 kilometers. He was further reported to have suggested to extend this railway *westward* to Rangoon in Burma, and *southward* to Haiphong joining the Yunnan-Haiphong Railway. As he pointed out emphatically, "China would thus have access of two open foreign ports in the South."

According to an early unofficial report, the total cost of construction of this railway was provisionally put at $100,000,000, half of which would be borne by the National Government and the other half by the provincial governments of Szechuen and Yunnan.

But by the end of 1940, what was envisaged, proposed and planned by the late Szechuen provincial chairman is now partially realized. In the latter part of 1940, a report from communication circles stated that the first leg of the Szechuen-Yunnan Railway, covering a distance of 200 miles between Kunming and Hsuanwei in the northeastern Yunnan, had already been completed and opened to traffic.

This one-meter gauge railway, divided into three sections (namely, Kunming and Hsuanwei, Hsuanwei and Weining, and Weining and Ipin) passes through rich coal and copper districts near the borders of Yunnan, Kweichow and Szechuen Provinces. The operation of a railway through this region will make possible economic development on a large scale.

Construction materials for the first section of the railway were mainly imported through special arrangements with the French Indo-China railway authorities. For some time before the closing of the Indo-China Railway in June, 1940, the engineering offices of the Yunnan-Burma and the Kunming-Ipin railways had jointly purchased 400 freight cars for shipping imported canstruction materials from Haiphong to Kunming.

B. The Szechuen-Kweichow Railway: The Szechuen-Kweichow Railway is now also under construction. Out of the $40,000,000-Development Loan, issued by the Provincial Government of Szechuen, $10,000,000 were decided to be invested in the Szechuen-Kweichow Railway Corporation to accelerate the construction of this line.

Like the famous Kiangnan Railway and others in the eastern part of China, the Szechuen-Kweichow Railway is said to be a joint enterprise between the government and people. As such, it is, therefore, a pioneer in the Southwest.

According to a previous unofficial report, the total cost of the construction of this line was put at $70,000,000, of which the government subscribed 20 per cent., merchants another 20 per cent., the Szechuen Provincial Government $1,500,000, and the Szechuen merchants $1,000,000. The rest was being taken up by the Ministry of Railways, now amalgamated with the Ministry of Communications, and the Finance Development Corporation. Through the latter, a loan of 34,000,000 Francs was recently concluded with Banque Industrielle Franco-Chinoise.

C. The Yunnan-Burma Railway: Like the construction of the Yunnan-Burma Highway, little information of which was given out before its completion. So we know at present very little of the progress in the construction of this line, except that it is now under intensive construction.

This line connecting Kunming and British Burma by way of the mountainous region of western Yunnan is about 800 kilometers in length. When it is completed, it will serve as an important link between Free China and the outside world *via* Rangoon.

D. Purpose of Construction: A study of the map will make the purpose of construction of these railway lines almost self-evident. In building these lines, the Chinese framers of these projects must have in mind more definite and important objectives other than the development of communications in the Southwest as part of the national economic reconstruction program. For by constructing these railways, a network of railway communications in the Southwest, with Szechuen as the center, would radiate to all parts of the Southwest and the Northwest so as to open up a vast area of territory, hitherto remained undeveloped, unexploited and non-productive. To provide direct and quick access to the Indian Ocean, not only for the Southwest but also for other parts of China, is certainly another important objective. Thus, despite the blockade of the Pacific Coast, the Indian coast will still remain open to give China direct communication and close contact with the outside world.

Obviously the Chinese plan to reach the Indian Ocean quickly and directly by the construction of the Yunnan-Burma Railway. By the construction of the Szechuen-Yunnan Railway, the Chinese plan to provide direct access for the central and western parts of China to the coast of Indian Ocean. From Ipin, the eastern terminus of the Szechuen-Yunnan Railway, a branch line will go to Neikiang, midway of the Chungking-Chengtu Railway. Thus, when these lines are completed, Chungking and Rangoon will be linked by railway.

The railway from coastal China which goes through Chekiang, Kiangsi, Hunan and Kwangsi provinces will later be extended from Liuchow (Kwangsi Province) to Kweiyang, capital city of Kweichow Province. From Kweiyang, a branch will link up with the Szechuen-Yunnan Railway at Hsuanwei near the Yunnan-Kweichow-Szechuen border. This arrangement will virtually connect eastern China on the Pacific coast and southwestern China near the Indian Ocean, by railways traversing the hinterland of China and the heart of Burma.

By the construction of the Chungking-Chengtu Railway, the authorities intend to make it a trunk line in the Southwest, from which branch railways will be extended to the north, the northwest, the east and the northeast.

From Chengtu, the Chungking-Chengtu Railway will be extended to Paochi, now industrial center in the southern part of Shensi Province. From Paochi, the Chungking-Chengtu-Paochi Line will make a connection with the famous Lunghai Railway to reach Haichow, a sea port in northern Kiangsi in the east, and to penetrate Sinkiang Province in th northwest.

The construction of the 2,500-kilometer Great Northwestern Railway starting from Paochi and traversing many of the northwestern provinces, such as Shensi, Kansu, Chinghai and Sinkiang to make direct and through traffic service with the Trans-Turk Railway has been repeatedly suggested by many Chinese engineers, and the plan is now under the consideration of the Chinese authorities. Such a proposal is quite in conformity with what was proposed by Dr. Sun Yat-sen for the construction of the Chungking-Hweiyuan Railway above referred to, though the proposed railway would follow a slightly changed route.

When the through service between the Lunghai Railway (from Haichow to Paochi) and the Great Northwestern Railway (from Paochi to the extreme west of Sinkiang Province) is open, the whole line will undoubtedly go down in the annals of the railway construction as another "Trans-Continental Railway," or "Trans-Asiatic Continental Railway." When connection is made with the Trans-Turk Railway, it will be then possible for the travellers to go to Europe *via* Moscow from the eastern Asia *by land*. But by the Burma - Yunnan - Szechuen - Chungking-Chengtu-Paochi Railway, travellers from the Indian coast can also go to Europe *by land*.

Although the entire railway, which covers three provinces (Szechuen, Yunnan and Kweichow) in its 500-mile run through some of the most difficult regions in the Southwest, is yet to be completed, much hope is held for its opening to through traffic not later than the end of 1941. By that time, China expects to have a network of railways in full operation in addition to many highways to give Southwest China quick and direct access to all other parts of the country as well as the outside world through the port along the Indian Ocean.

Highways

But this vast hinterland in the Southwest is mostly mountainous and the difficulties of railroad construction are quite obvious. Therefore, the construction of roads and highways is considered as a more *expedient* measure of improving the communication facilities in the interior.

According to a report of the Ministry of Communications, the National Government had from 1931 to 1937 constructed a total of 110,000 kilometers of highways. Since the outbreak of hostilities, the construction of new highways has been particularly emphasized.

That the construction of the 964-kilometer Yunnan-Burma Highway in eight months, employing no less than 200,000 terrain to Lashio, is a remarkable record in laborers, and traversing the most difficult the road-building. Through constant improvement, this road has been made more serviceable on both sunshine and rainy days.

Immediately after the end of the rainy months in 1939, the Ministry of Communications appropriated $10,000,000 for strengthening the road. Part of $10,000,000 is set aside for local repair and maintenance work. Today the safety and serviceability of the road are assured. The Ministry does not expect traffic to be held up for more than one day in the case of landslides, as road gangs will be rushed from the nearest depot to clear the way at once.

But the year 1940 witnessed the completion of several highways, and still more are scheduled to be completed in the present year.

A. The Szechuen-Yunnan Highway: The Szechuen-Yunnan Highway was completed and was opened to traffic in the spring of 1940. Since then, thousands of heavy-duty trucks have been making the run between Kunming and Luchow on the Yangtze River in southern Szechuen to carry vital products for export to foreign countries and necessary materials imported from abroad over this new artery of transportation in Southwest China.

The total distance of 914 kilometers is usually covered in four days. Compared with the 1,150-kilometer Chungking-Kunming Highway *via* Kweiyang, the new road saves a distance of 236 kilometers. From Luchow, goods are shipped to Chungking either by junks and steamers or by trucks *via* the Chungking-Chengtu Highway. The new highway eases considerably the traffic congestion on the Chungking-Kunming Highway.

The highway passes through some of Southwest China's most difficult terrain. It crosses seven large rivers, including the Yangtze, besides numerous small streams. Ferries are maintained on five of the major rivers, with eight ferry boats on the Yangtze and Tu Rivers, four on the Yungling River, three on the Chihsui River, and three on the Tsihsinkwan River. The other rivers are spaned by bridges with a minimum load capacity of seven tons.

The road is six and a half to seven meters wide, and paved with pebbles. It has 23 stations. Four hostels have been established along the road in cooperation with the China Travel Service for the benefit of travellers. Six work shops are located at strategical points to "hospitalize" motor vehicles in trouble. The three larger ones have each a capacity of 150 trucks. Several material and liquid fuel depots also dot the road. They are usually kept in bomb-proof dugouts to prevent destruction by air raids.

B. The Szechuen-Sikang Highway: In western Szechuen and eastern Sikang, the construction of the 39-kilometer Szechuen-Sikang Highway was completed at the end of October, 1940 after 30 months of hard work. Regular bus and freight services are now maintained between the capitals of two western provinces to give China's "Baby Province" quick access to other parts of the country.

Work on this highway was started before the war. The 149-kilometer section between Chengtu and Yaan was completed by the Szechuen provincial authorities, and bus services were provided by the Szechuen Highway Administration. With a view to developing the frontier district, the National Government ordered the early completon of the entire length of the road with all expenses met by the national treasury. The construction of this highway is now completed. The Chinese engineers should once again be credited with another brilliant success in road building comparable to the record of the Yunnan-Burma Highway!

The construction of this highway really represents a great struggle between human power and natural force. When it was under construction, day after day tens of thousands of laborers were fighting their way through huge rocky mountains which are part of the famous Omei Shan and Ta Liang Shan on the Szechuen-Sikang border. With their primitive instruments, they were literally chiseling their way through 550 kilometers of rocky range in one of the most mountainous regions of the country.

A total number of more than 160,000 workers, some being women and Lolos living along the line, and others recruited from other Szechuen countries, were employed to cut their way across the 3,000-meter Kung Lai Shan Ridge since May, 1938. They cleared more than 3,000,000 square meters of earth work, and cut 1,400 square meters of rock. About 3,000 workers fought hard against wind, snow, ice, hunger and disease for six months straight to cut a road of 90-kilometers over the 3,000-meter Erh Lang Shan Ridge. Quite a few workers died during the period of construction, but most of them managed to withstand and survive all hardships. Their toil is now well rewarded as the newly completed highway is destined to play an important part in the national economic reconstruction of the Southwest.

C. The Yunnan-Sikang Highway: Soon after the completion of the western section of the Yunnan-Burma Highway, the toilers of the highway were called back to work on the new highway *directly* linking Yunnan and Sikang Provinces. The construction of the new highway, an extension from the Yunnan-Burma Highway, will link the two provinces of Yunnan and Sikang closer together. It was said that the present line was selected by Generalissimo Chiang Kai-shek himself from four possible routes proposed by the Yunnan Provincial Highway Bureau. The cost of construction will be equally divided between two provincial governments. When completed, it will have far-reaching effects on the commercial as well as political progress of both Yunnan and Sikang.

The Yunnan-Burma Railway engineering office in Kunming is entrusted with the surveying and building of the highway within the Yunnan border, while the provincial highway bureau is responsible for drafting and supplying man power for the construction. The Sikang section of the road will be built under the supervision of the Ministry of Communications. Work on the road was started on December 1, 1940, and the deadline for completing the entire roadbed was set for April, 1941.

Although popularly known as the "Baby Province" in China, Sikang has an elaborate plan for highway construction. The new highway connecting Yunnan and Sikang is the third one now under construction, the other two being the Chengtu-Kangting (capital city of Sikang Province) and the Loshan (or Kiating)-Sichang Highways.

The surveying of the Kangting-Taining and the Kangting-Okeh Highways was completed at the end of 1940, and the construction work will begin before long. Other highways proposed and planned are as follows:—

(1) The Tao-Kan Highway, starting from Taofu in Sikang to Kanhsien in Szechuen Province.
(2) The Sikang-Chinghai Highway, from Kangting to Sining, capital city of Chinghai Province.
(3) The Sikang-Indian Highway, from Kangting to the Indian Border.
(4) The Sikang-Burma Highway, from Kangting to Burma border making connection with the Sikang-Indian Highway at Yenching Station.
(5) The Sikang-Lhasa Highway.

D. The Szechuen-Kansu Highway: By the summer of 1940, the 400-kilometer Kansu Section of the 1,119-kilometer Szechuen-Kansu Highway was already completed. But the whole line from Lanchow, capital city of Kansu Province, and Chengtu, capital city of Szechuen Province, is expected to be completed in the near future.

The war-time significance of constructing the Szechuen-Kansu Highway is most impressively demonstrated when the Japanese, by closing the French Indo-China road and the Burma line to China, attempted to cut off China's contact with the outside world from the south, and when China had to rely more heavily on her northwestern international route as China's "Back Door" in the north.

The usual route from China's wartime capital to the Northwest is by the Szechuen-Shensi-Kansu-Sinkiang Highway. Starting from Sinkiang, the 1,172-kilometer Kansu-Sinkiang Highway will carry cargoes to Lanchow. From Lanchow, the road is connected with Sian, capital city of Shensi Province, by the 704-kilometer Sian-Lanchow Highway. At the loess ridge of Huanchialin the road takes a short cut to Tiensui and thence to Shuanshipu in southwestern Shensi. The total distance from Lanchow to Shuanshipu is 575 kilometers. At Shuanshipu, the road goes southward to Ningchiang, some 250 kilometers in distance. From Ningchiang, in co-operation with the Szechuen Provincial Highway Administration it is extended to Chengtu on the Shensi-Szechuen Highway about 440 kilometers in distance. From Chengtu, the 450-kilometer Chungking-Chengtu Highway will carry cargoes to China's war-time capital.

Thus, China's northwestern international highway from Chungking to Baboon Pass covers 2,886 kilometers *via* Shuanshipu and Huachialin, and from Baboon Pass to the Sino-Soviet border town of Tacheng it is about 2,020 kilometers, making the total distance from Chungking to the Sino-Soviet border about 4,900 kilometers.

Compared with the 2,296 kilometers from Chungking to Lashio in Burma *via* Kweiyang and Kunming, and 1,614 kilometers from Chungking to Laokai on the Sino-French Indo-China border *via* Kweiyang and Kunming, the northwestern route is more than twice longer in distance.

Therefore, the construction of the Szechuen-Kansu Highway is to reduce the distance from China's war-time capital to China's "Back Door" in the North. For this reason, the Ministry of Communications is rushing the completion of the 1,119-kilometer Szechuen-Kansu Highway linking directly Lanchow and Chengtu. It is said that compared with the Szechuen-Shensi-Kansu-Sinkiang route, the new Lanchow-Chengtu line will save one-fourth of the total distance. It may be recalled that the construction of the Kansu Section of the highway, now already completed, involved the excavation of high mountain ranges, such as Men and Muchi Mountains, some 14,000 meters above sea level. This section is the most difficult part of the entire highway.

What we have to record here is that the whole line when completed will stand as an immortal monument of the contribution of Kansu's women to the Nation at war. The Kansu women who played a considerable role in the construction of the Kansu-Sinkiang Highway, are now again engaged in the construction of this new road, and their physique and hardihood have proved equal to the task. Secondly, like the construction of other highways in other parts of the country, the highway is largely constructed by manual labor. Not with the aid of modern machines but by the use of primitive tools, spades, hammers, axes and even their vegetable choppers, everyday tens of thousands of workers are literally chiseling their way through the most mountainous regions, and they are working atop and amid high mountain precipices where a slight slip means instant death. The excavations are done by the use of gunpowder or some other explosives.

E. Purpose of Construction: Thus, it is clear that in the construction of the railway and highways, China has more definite and important objectives in mind besides the development of communications in the country. To open direct and quick connection with other coastal ports in the South is one, and to bring closer contact with some of the friendly powers is another. In building the Szechuen-Yunnan-Burma Railway, China wants to be linked with British Burma in the South, while by completing the Szechuen-Kansu Highway, China wants to be linked with the Soviet Union in the North. When all these lines are completed, it is hoped that China will be the center of world communications, as well as for the cultivation of international good-will and friendship. All these railways and highways will stand as symbols of China's contribution to such worthy purposes. By that time, China believes that it will be feasible to travel overland across western China from Lashio on the Sino-Burma border to Tacheng on the Sino-Soviet border. According to an unofficial survey, the total distance from Lashio to Tacheng through Kunming, Kweiyang, Chungking, Chengtu, Ningchiang, Shuanshiyu, Tiensui, Lanchow, Baboon Pass and Tihua is roughly 6,800 kilometers.

With the discovery of alcohol and by the use of charcoal, as substitutes for foreign imported gasoline, the question of fuel supply for automotive vehicles is no longer a problem. China now has sixteen alcohol distillers in the Southwest, and at least four more in the Northwest while several others are under planning and construction. They are producing thousands of gallons of alcohol every day to meet the needs during war time.

At present, Diesel oil is being more popularly used in the Lanchow district, alcohol in the Sian district, and charcoal in the Hanchung district. These substitutes, the supply of which is quite sufficient, have not only solved the problem of the gasoline shortage but have also reduced the operating cost of motor vehicles. Between Hanchung and Chengtu, for instance, the average fuel consumption is one *catty* (about half kilogram for one Chinese *catty*) of charcoal per kilometer, the cost of which is roughly only 20 cents. A new process of charcoal combustion has made it impossible for heavy-weight buses and trucks to attain a speed of 60 kilometers per hour on level roads.

Economic Condition in Japan

(Continued from Page 33)

Yokohama harbours was formally opened to foreign commerce under the name of KEIHIN PORT.

Simultaneously, the Government decided to assist Yokohama City financially for the payment of interest on outstanding U.S. Dollar Bonds, to guarantee the difference in exchange between the book rate and the actual exchange rate on the principal and interest of the U.S. Dollar Bonds. It will also pay the interest on the Y.30,000,000 Yokohama Loan which was floated in order to redeem those U.S. Dollar Bonds. Thereby, Yokohama is to be benefited by Y.4,600,000 to Y.4,700,000 a year. Provisions for the aforesaid will be included in a supplementary budget for the 1941/42 fiscal year which will be submitted for approval by the next session of the Diet.

SHANGHAI
MARKET PLACE OF THE ORIENT

Foreign Trade—Finance—Commodities—Living Costs

FOREIGN TRADE

IN August, Shanghai imported $72,797,865 worth of goods as against $90,531,887 for July and exported $211,740,033 worth of goods as against $186,969,641 for July according to Customs figures. For the first eight months of the current year, Shanghai's total imports valued at $553,206,265 as against $550,203,268 for the corresponding period of the last year or an increase of $3,002,997. Shanghai's exports during the same period amounted to $1,396,484,466 as against $856,797,752 for the corresponding period of last year, or an increase of $539,686,714.

That Shanghai's import for August dropped by $17,734,022 was due to the small quantities of raw cotton, tobacco, machinery, chemicals, oil, coal and other products imported during the month, as shown in the following table:

Cotton Raw, Cotton Yarn, Cotton Thread	—$ 5,605,763
Books, Maps, Paper and Wood Pulp	— 3,445,673
Tobacco	— 3,002,884
Machinery and tools	— 1,928,009
Dyes, Pigments, Paints and Varnishes	— 1,391,289
Chemicals and Pharmaceuticals	— 1,387,444
Sugar	— 1,292,767
Metals and Ores	— 582,527
Oils, Fats, etc.	— 539,667
Coal, Fuel, Pitch and Tar	+ 3,132,645
Cereals and Flour	+ 854,593
Others	— 2,545,147
	—$17,734,022

Meanwhile, the increase of exports during the month by $24,770,392 when compared with July was due to the export of larger quantities of piece goods, animal products, beans, tea, vegetables, and other kinds of products as shown in the following table:

Piece Goods	+$14,886,550
Yarn, Thread, Plaited and Knitted Goods	+ 12,680,678
Animals and Animal Products	+ 6,175,248
Other Textile Products	+ 4,099,585
Beans and Peas	+ 3,098,252
Tea	+ 1,854,878
Other Vegetable Products	+ 1,597,483
Vegetables	+ 1,162,606
Ores, Metals and Metallic Prodts.	— 10,119,910
Textile Fibres	— 3,804,227
Seeds	— 3,162,767
Sundry	— 2,874,577
Oil, Tallow and Wax	— 2,156,088
Others	+ 1,332,681
	+$24,770,392

From these Customs figures it appears that Shanghai's foreign trade in August had an export surplus of $138,942,168. However, if one converts the value of the goods into pound sterling, one will immediately see that in reality Shanghai had an unfavorable balance of trade in the month of August. The import surplus for the month was £1,921,980. In pounds sterling, Shanghai's imports in August totaled £4,513,590 as against £5,613,129 for July while Shanghai's exports totaled £2,591,610 as against £2,507,539 for July. Shanghai's imports in pounds sterling in August decreased therefore by £1,099,539 or 19.6% while Shanghai's exports increased by £84,071 or 3.4% over that of July. The following table gives Shanghai's imports, exports and import surplus in the first eight months of 1941 and 1940:

Imports

	1941	1940
January	£2,874,572	£2,463,390
February	3,974,642	2,872,957
March	3,425,059	4,234,715
April	5,719,236	6,823,011
May	4,380,409	5,291,100
June	3,811,026	4,975,075
July	5,613,129	5,677,132
August	4,513,590	4,934,861
	£34,311,663	£37,272,241

Exports

	1941	1940
January	£1,644,530	£2,440,881
February	1,724,387	1,301,006
March	2,247,250	1,315,312
April	2,473,678	1,598,562
May	2,702,774	2,391,276
June	2,972,700	1,952,738
July	2,507,539	1,594,849
August	2,591,610	1,852,468
	£18,864,468	£14,447,092

Import Surplus

	1941	1940
January	£1,230,042	£ 22,509
February	2,250,255	1,571,951
March	1,177,809	2,919,403
April	3,245,558	5,224,449
May	1,677,635	2,899,824
June	838,326	3,022,337
July	3,105,590	4,082,283
August	1,921,980	3,082,393
	£15,447,195	£22,825,149

More goods were imported in the month from Siam and French Indo-China but imports from all other countries decreased. As to exports, more goods were sent to Netherlands Indies and Hongkong while the exports to Kwantung Leased Territory in Manchuria which was the most important transit center for goods to Germany by way of Siberia dropped heavily as a result of the outbreak of the Russo-German War and the closure of the Trans-Siberian Route. The following tables give the positions of the various trading countries in Shanghai's foreign trade for the first eight months of the year:

Cumulative Export Figures

To:	Jan.-Aug., 1941	Jan.-Aug., 1940
U.S.A.	$352,586,390	$279,492,994
Hongkong	221,457,040	133,172,277
Kwantung L.T. ...	139,372,562	22,079,866
Nethlands India ..	90,192,681	25,207,573
British India	82,633,094	52,908,578
Japan	82,289,032	27,279,140
Great Britain	79,078,070	99,007,500
S.S. & F.M.S.	71,873,406	37,791,929
F. Indo-China	62,650,215	7,190,692
P'pine Islands	55,630,034	19,923,862
Siam	54,732,906	23,367,111
Formosa	22,491,456	19,571,753
Burma	15,374,140	6,134,461
Egypt	15,019,622	2,815,946
Morocco	39,528	13,686,149
Italy	10,659	5,522,663
France	45	31,705,986
Other Countries ..	51,053,586	49,939,272
	$1,396,484,466	$856,797,752

Cumulative Import Figures

From:	Jan.-Aug., 1941	Jan.-Aug., 1940
U.S.A.	$121,413,988	$195,171,033
F. Indo-China	72,555,463	35,921,657
British India	60,608,930	92,758,325
Burma	52,671,644	3,864,856
Netherlands India	50,747,490	31,384,457
Japan	40,372,233	49,294,468
Brazil	29,526,558	16,942,308
Siam	22,454,506	12,757,261
Germany	20,099,883	10,738,765
Great Britain	15,721,718	27,384,116
Australia	14,687,622	15,203,912
Canada	13,153,235	5,591,024
Hongkong	11,184,102	7,506,901
Formosa	7,047,831	3,692,056
P'pine Island	6,659,299	2,165,240
Kwantung L.T. ...	6,093,216	3,047,365
Egypt	2,381,234	7,813,835
Other Countries ..	5,827,313	28,965,689
	$553,206,265	$550,203,268

In connecton with Shanghai's foreign trade, it is most important to note as *Finance and Commerce* pointed out that Shanghai had an import surplus of £15,000,000 during the first eight months or an average of £1,900,000 or U.S.$7,600,000 per month. Furthermore, it must be noted that Shanghai's monthly average import is around U.S.$16,000,000. If the Currency Stabilization Board will supply only U.S.$6,000,000 for the import of "legitimate" goods, it will not be difficult for one to imagine the serious dislocation of Shanghai's trade in the future.

The most important development of Shanghai's trade condition in August was probably the decision of the Customs to prohibits the export of goods from Shanghai to the so-called "Free" China or the unoccupied areas of China on September 25. The British Crown Colony of Hongkong is not regarded as part of the "Unoccupied China" under the new ruling, but the transit tax for cargo destined to Hongkong has been doubled for the time being. This action on the part of the Nanking Government, which was considered as retaliation against the American and British freezing orders, is generally believed to be a serious blow to many firms in this city, particularly to Chinese, American and British cotton mills who will thus be unable to export their cotton piece goods to "Free" China.

FINANCE

Following the second conference of the Currency Stabilization Board in Hongkong in the early part of Septembr, definite measures were taken to control the exchange market in Shanghai and as a result, all the fourteen licensed banks as well as the Chinese banks withdrew from the exchange black market. Although the exchange black market went out of existence, foreign exchange in small sums could be obtained at the black market rate. It was reported that small sums of foreign exchange were sold by the Banque de L'Indo-Chine, which is not one of the fourteen licensed banks. Meanwhile, importers of banned goods were very active in the purchase of American bank notes in the Shanghai market for payment of their imports. It was reported that in Shanghai there are altogether from U.S.$30,000,000 to U.S.$50,000,000 American bank notes.

The regulations issued on September 9 for the control of the exchange market are reproduced in the following:

1. Cover will be provided for major import commodities (including freight and insurance) on quota basis against approved applications as decided by the Board and set out in List "A" provided that exchange has not already been settled by the importer or furnished by the consumer.

2. Cover will be provided for other principal import items (including freight and insurance) set out in List "B" against approved applications.

3. (a) To meet small imports not on lists "A" and "B" and not on the prohibited list the Board will provide exchange not exceeding US$2,000 or £500 Sterling in any one transaction.

(b) For personal requirements such as remittance, passage money, insurance premiums, etc., the Board will provide reasonable amounts of exchange not exceeding U.S.$200 or £250 Sterling to any one individual or family for any one month.

(c) A weekly statement will be rendered to the Board by each bank covering the nature and amount of transactions under sub paragraphs (a) and (b) above.

4. No cover will provide for articles on the prohibited list which do not appear on lists "A" and "B" without prior approval of the Chinese Government.

5. Cover will be provided for bills maturing in September for which exchange has not been settled out excluding specific margin in foreign currency held by banks or importers. A statement of cover so provided should be submitted to the Board.

6. Banks will only quote official rates and will have no dealings at other rates directly or indirectly.

7. Any cover expressed in foreign currencies acquired by the banks shall be purchased at official rates and set off against foreign exchange requirements specified in paragraphs 1, 2 and 3. A statement of the foreign currencies thus acquired, together with any set-offs effected, shall be made by the banks each week in confidence to their respective national or designated members of the Board.

8. Merchants who receive cover from licensed and/or authorized banks should sell all their export paper to those banks, and merchants not complying with this requirement will receive no further cover from the Board. Merchants effecting link transactions will also receive no further cover from the Board.

9. All import cover to merchants shall be for cash. Before cover is given by the banks to the merchants shipping space must have been secured and export formalities fulfilled by the merchants. Any cover not used for the purposes for which made available must in all cases be surrendered to the Board at the rate of purchase.

10. The onus rests upon the banks to take reasonable precautions in all cases to satisfy themselves that application for exchange to be furnished by the Board are for genuine and legitimate business and that exchange has not been obtained from other sources.

List A

Rice, Tobacco, Leaf, Petroleum Products and Coal, all under certain restrictions.

List B

Numbers referred to are Paragraph numbers of Customs Import Traffic of Republic of China 1934.

Begin 71 cotton, raw 98 jute, raw 100, 104 and 105 yarn and thread, of flax ramie, hemp and/or jute and flax. Piece goods, mixed or not mixed with cotton 101 twine and cordage, of flax ramie, hemp and/or jute, mixed or not mixed with cotton 112-113 wool and wool waste 177 iron and steel bolts, nuts and washers 196 tinned plates, plain 245 electrical machinery for power generation and transmission 248 prime movers i.e. gas engines, oil engines, steam engines, etc. 249 steam boilers, economizers, superheaters, mechanical stokers and other boiler room accessories and parts thereof 252 machinery, not otherwise provided for and parts thereof 256 C motor vehicle parts and accessories except tyres 1: for motor cycles 2: for others 263 A. B and C. electrical materials, fixtures and fittings for wiring; transmission and distribution 271 A radio sets and parts 302 B beef, corned in cans 305 butter 311 coffee 315 fruits in cans or bottles 323 milk and cream evaporated or sterilized 324 milk, condensed 325 milk food including dried milk, lactogen, glaxo, etc. 334 A and B foodstuffs, not otherwise provided for 357 flour, wheat 358 flours and cereal products not otherwise provided for 395 wheat 396 molasses 397 A and B sugar (426-30, 432 435-445 452-455 457-8, 460 465-72, 474-76 480 A, B and C) covering chemicals and chemical compounds 461, 464 and 481 pharmaceuticals 482 aniline dyes and other coal tar dyes 498 indigo, artificial 511 tanning extracts, vegetable 517 dyes, pigments, colors, tans and tanning materials 518 paints, varnishes and polishes 522 gum arabic and resins, other 526 resin 531 oil cocoanut 541 and 537 A and B oils, fats and waxes, not otherwise provided for including essences oil, essences and constituents of synthetic perfumes, natural and artificial, not otherwise provided for.

Turpentine: mineral and vegetable 548 A and B paper, newsprinting 553 paper, packing and wrapping 555 paper, tissue including copying bibleprint, manifold and pelure 556 A and B paper, writing and/or printing 559-560 wood pulp, chemical and mechanical 561 paperware and all other articles made of paper 564-565 leather, sole and upper 580-586 590 timber 629 A to F inclusive asbestos and manufactures thereof 644 A rubber, crude 644 D rubber tyres for motor cars 656 photographic and cinematographic products, apparatus and materials of all kinds except chemicals 663 starch 672 sundry articles.

Although the exchange black market disappeared many importers managed to buy foreign exchange from other foreign banks in the latter part of September at 4.75 or 4.71875. Meanwhile, the importers of banned goods bought American bank notes for payment of their imported goods. For such payments, well-informed circles state that the foreign exporters demand a premium of $550 fapi for every U.S.$1,000. The quotations of American bank notes in the local market increased much in the latter part of September because of large demands from both the importers and the speculators.

		Quotation of U.S. Bank Note
September	1	$21.10
„	5	21.05
„	10	20.45
„	15	21.50
„	16	21.95
„	17	22.60
„	18	22.20
„	19	22.40
„	20	22.50
„	22	22.50
„	23	22.05
„	24	21.70
„	25	22.25
„	26	22.40
„	27	22.55

The fictitious gold bar market was very quiet during the month as the black market disappeared. However, there were more demands for cash gold bars in the market and it was reported that the Central Reserve Bank of Nanking bought considerable sums of cash gold bar in the local market. On September 27, the fictitious gold bar was quoted at $6,888 while the cash gold bar at $9,285. It was reported that as from October, fictitious gold bars would have the exchange rate between Shanghai and Hongkong as the settlement rate by the end of every month and the formula for this rate would be:

? HK$ equals 1 Gold Bar
1 Gold Bar equals 10 Shi-ping liangs 992 fine.
9.953 Shi-ping liangs, 1000 fine gold equals HK$1400.

$$X \text{ equals } \frac{10 \times 922 \times 1400}{100 \times 9.953} \text{ equals } 1395.40 \text{ (constant).}$$

And then, if H'kong T/T/ on S'hai is 17.30 per. Shanghai $100, the calculation would be:

$$\frac{1395.40}{1730 \text{ (HK T/T/ on Shanghai)}} \text{ equals SH\$8,066.00.}$$

(Price of one Shanghai Gold Bar)

This attempt of the market authorities to boost up the business of the fictitious gold bar market by adopting the new method to settle the accounts at the end of every month received a serious blow when the Chinese and British authorities decided to freeze the Chinese fapi in Hongkong. This action on the part of the authorities in Hongkong is calculated to do away with the smuggling of fapi from Hongkong to Shanghai became of the difference of exchange rates between fapi and Hongkong dollar in Shanghai and in Hongkong. In Hongkong, one Hongkong dollar changes for $6 or $7 fapi while in Shanghai one Hongkong dollar is worth only $5 to $5.50 fapi. Smugglers were reported to have sent fapi to Shanghai to buy Hongkong notes at the cheaper rate and then sent the Hongkong dollars to Hongkong to buy fapi and then sent fapi to Shanghai to buy more Hongkong notes. The Japanese authorities seized several consignments of these smuggled fapi notes along the South China coast in the latter part of September and each consignment was reported to be $1,000,000 to $5,000,000.

COMMODITIES

Prices of some commodities in Shanghai increased as no foreign exchange can be obtained to import them in the future while others dropped as large sums of cheap foreign exchange will be available for the import of such commodities.

(1) *The Rice Market:* For instance, price of rice dropped in the month of September as the Currency Stabilization Board announced clearly that foreign exchange would be given to the Shanghai Municipal Council for the import of rice. Despite the activities of the speculators, prices dropped from $134.00 for the first grade Saigon rice on August 25 to $126.00 on September 27. Total turnover of rice in the month was 492,000 bags and 17,100 tons, as against 356,000 bags and 17,800 tons for August. The following table gives the daily turnover of rice in the month:

		Total Turnover	
September	1	10,000 bars	700 tons
„	2	18,000 „	1,000 „
„	3	40,000 „	500 „
„	4	7,000 „	400 „
„	5	9,000 „	300 „
„	6	20,000 „	1,000 „
„	8	15,000 „	500 „
„	9	28,000 „	900 „
„	10	10,000 „	700 „
„	11	10,000 „	400 „
„	12	26,000 „	100 „
„	13	10,000 „	200 „
„	15	17,000 „	1,000 „
„	16	25,000 „	200 „

,,	17	15,000	,,	900	,,
,,	19	30,000	,,	600	,,
,,	20	24,000	,,	400	,,
,,	22	30,000	,,	1,000	,,
,,	23	25,000	,,	2,000	,,
,,	24	17,000	,,	1,000	,,
,,	25	10,000	,,	400	,,
,,	26	20,000	,,	700	,,
,,	27	30,000	,,	600	,,
,,	29	15,000		600	
,,	30	30,000		1,000	
Total		492,000	bags	17,100	tons

Prices of rice during the month are given below:

	Sept. 4	Sept. 17	Sept. 27
First grade Saigon rice	$124.00	$117.00	$126.00
Second grade Saigon rice	113.00	106.00	116.50
Mixed broken rice	86.00	80.50	88.70
Pootung	159.00	149.00	152.00
Wusih	155.00	150.00	—
Chinkoo	158.50	147.00	146.50
Nankong	159.00	146.50	147.00

(2) *The Cotton Market:* Prices of cotton in September increased further when compared with August as both the cotton mills and the cotton merchants tried to store up as much as possible in view of the general belief that as a result of the worsening of international conditions little foreign cotton will be sent here in the future. The following table gives the total turnover of raw cotton in the month:

	Chinese Cotton	Foreign Cotton	Total Turnover
Week ending Aug. 30	2,489	28,836	31,325
Week ending Sept. 6	10,130	20,993	31,123
Week ending Sept. 13	4,528	17,341	21,869
Week ending Sept. 20	3,436	44,614	48,050
Week ending Sept. 27	5,389	38,458	43,847
	25,972	150,242	176,214

The following table gives the prices of cotton on September 2, September 10, September 15 and September 25:

	Sept. 2	Sept. 10	Sept. 15	Sept. 25
American Punjab	$514.00	$548.00	$ —	$550.00
U.S. Middling	—	—	780.00	800.00
Brazilian	—	—	780.00	—
Rangoon	—	335.00	340.00	372.00
Omra	—	—	341.00	380.00
Hooche	300.00	300.00	293.50	—

(3) *The Cotton Yarn Market:* The cotton yarn market was very active in the month, especially when the exchange black market and the fictitious gold bar market were not very active. Most of the speculators have concentrated their attention on the yarn market and as a result, a new record high in price was reached on September 29 when the 20's Double Horse was sold at $1,840.00 per bale. The following table gives the daily turnover of cotton yarn in the old and new exchanges:

		Old Exch.	New Exch.
September	1	6,530	20,770
,,	2	6,610	17,900
,,	3	7,045	15,400
,,	4	5,110	9,680
,,	5	6,985	9,270
,,	6	7,595	11,000
,,	8	8,010	23,370
,,	9	8,060	23,310
,,	10	8,635	22,610
,,	11	9,100	11,030
,,	12	9,650	22,240
,,	13	8,700	10,450
,,	15	8,030	22,090
,,	16	8,130	13,800
,,	17	6,575	7,830
,,	18	4,300	9,520
,,	19	8,680	9,750
,,	20	8,840	9,500
,,	22	8,925	15,360
,,	23	10,295	12,820
,,	24	10,415	23,260
,,	25	10,445	13,860
,,	26	11,340	22,260
,,	27	11,790	15,000
,,	29	11,605	Settlement day
,,	30	15,070	34,210
		226,470	406,720

That prices of cotton yarn increased much during the month can be easily seen from the following table which shows that price of 20's Double Horse on September 1 was only $1,673 but on September 29 was $1,835, representing an increase of $162. As to 20's Double Globe, it was sold on September 1 at $1,600 but on September 29 at $1,780, representing an increase of $180. As to 20's Heavenly Girl, its selling price on September 1 was $1,606 but on September 29 it was $1,800, represnting an increase of $194. The price of 10's Ka Ho on September 1 was $1,035 but on September 29 was $1,185, representing an increase of $150. The following table gives the prices of some of the leading brands of cotton yarn in the local market during the month:

	Sept. 1	Sept. 15	Sept. 29
42's Double Horse	—	—	—
42's Double Carp	$3800	$3500	—
40's Heavenly Girl	3200	—	—
40's Double Horse	—	3500	—
32's Heavenly Girl	2850	—	—
32's Cat & Butterfly	2850	—	—
32's Golden Precious Star	—	2850	—
20's Double Horse	1673	1722	$1835
20's Heavenly Girl	1606	1692	1800
20's Double Globe	1600	1629	1780
20's Five Sons	1580	—	—
20's Shepherd	—	—	1820
20's Special Kincheng	—	—	—
20's Wu Fu	—	1688	—
10's Ka Ho	1035	—	1185
10's Double Globe	—	—	1245

(4) *The Cotton Cloth Market:* Total turnover in the cotton cloth market in September was 23,440 bales as against 17,255 bales for August. Of the total, 10,400 bales were taken by local speculators. 1,290 bales by Chekiang merchants, 7,350 bales by Kwangtung-Hongkong merchants, 3,350 bales by South Sea merchants and 1,050 bales by Chefoo-Tientsin merchants. The following table gives the details of the local cotton cloth market in September:

	1 week	2 week	3 week	4 week	5 week	Total
Local speculators	2,600	2,300	2,000	2,100	1,400	10,400
C'kiang merchants	200	450	260	280	100	1,290
K'tung-Hongkong	1,500	1,400	1,100	1,900	1,450	7,350
S. Sea merchants	500	700	450	1,000	700	3,350
Chefoo-Tientsin	200	300	50	300	200	1,050
	5,000	5,150	3,860	5,570	3,850	23,440

Prices of cotton cloth increased much during the month as shown in the following table:

	Sept. 5	Sept. 15	Sept. 30
16 lb. Butterfly	$60.25	$61.25	$66.00
16 lb. Double Elephant	60.50	61.25	66.00
16 lb. Globe	58.50	59.50	—
16 lb. Wu Fu	60.00	60.75	66.00
12 lb. Ta Pung	54.50	55.75	59.50
12 lb. Fu Kwei	54.00	55.50	59.50
12 lb. Chen Chung ..	52.00	—	—
12 lb. Globe	56.00	—	—
12 lb. Dragon Head ..	58.00	58.30	60.90
12 lb. Flying Fish	58.00	58.35	61.25
12 lb. Wu Fu	57.50	—	—
12 lb. Ball	—	58.10	60.80

LIVING COSTS

Despite the enforcement of official exchange rates following the measures taken by the Chinese Currency Stabilization Board, local retail prices of imported commodities and other goods advanced considerably during September, according to the index of the cost of living of western foreign salaried employees for the past month issued by the Industrial and Social Division of the S.M.C. The increase in cost of living was higher in September than in August, the index showed, with further reduction in the buying power of the Chinese dollar. Despite the drop in rice prices the index of the cost of living of the Chinese registered another rise last month. The S.M.C.'s report follows:—

Retail prices of imported groceries and other goods has shown further increases, despite the coming into force of official exchange rates following the measures taken by the Chinese Currency Stabilization Board. The Hongkong and Shanghai Bank ceased operating on the open market on August 29. Other British and American banks followed suit on September 8. On September 18, the banks changed quotations in terms of U.S.$ from 5.5/32 to 5.9/32.

Published lists would indicate that preferred exchange rates will be available for many commodities needed in households of foreign salaried employees. These include flour, canned foodstuffs, wheat, rice, coal, cotton, etc.

Foreigners' Index

There has been a further increase in the cost of living of foreign residents in September, the rise being heavier than in August. The consolidated index, based on 1939, rose to 293.91 recording an increase of 8.84 per cent. as against 5.27 per cent. in the preceding month. The American general index reached 270.66; British, 280.75; Russian, 302.59; and the index of other nationalities, 295.75. Percentage rises ranged from 8.11 per cent. for the British index 9.27 for Russian. Food index rose to 376.62; clothing, 316.85; wheat, 334.78; and the miscellaneous index, 243.59. Percentage rises ranged from 3.05 per cent. for the miscellaneous index to as high as 15.91 per cent. for food. The purchasing power of the dollar over its October, 1939 value was reduced by 65.98 per cent. as compared with 62.97 per cent. in August.

Average retail prices of rump steak rose 12.07 per cent. in September when compared with August hen eggs, 44.00 per cent.; Mandarin fish, 42.12 per cent.; cabbage 80.43 per cent.; carrots, 87.30 per cent.; raddish, 100 per cent.; Sun-maid raising, 19.14 per cent.; Carnation evaporated milk, 16.81 per cent.; IXL assorted jam, 22.84 per cent.; Acetco salad oil, 32.28 per cent.; Sunbest tomato paste, 36.36 per cent.; Maxwell House coffee, 15.23 per cent.; Chesterfield cigarettes, 18.62 per cent.; woollen suiting material, 44.34 per cent., Eversharp writing paper, 80 per cent.; and Red Ball toilet paper, 17.39 per cent.

Statistics

Base: Average of October, 1939=100

Indices	Average Oct., 1939	American 1941			British 1941		
Group Indices:		July	August	Sept.	July	August	Sept.
Food	100.00	259.60	282.12	323.92	285.03	308.68	354.10
Clothing and Materials . .	100.00	246.09	271.76	305.59	264.58	284.63	314.12
Rent	100.00	188.09	188.09	188.09	186.07	186.07	186.07
Heat, Light, Water and Refrigeration	100.00	298.65	325.07	343.63	312.16	323.73	344.03
Miscellaneous	100.00	211.47	218.26	228.55	227.82	235.36	245.39
General Index	100.00	234.82	249.55	270.66	247.69	259.70	280.75

Indices	Average Oct., 1939	Russian 1941 July	August	Sept.	Other Nationalities 1941 July	August	Sept.
Group Indices:							
Food	100.00	322.69	338.00	394.52	301.55	325.36	376.00
Clothing and Materials	100.00	260.81	283.33	306.76	282.84	311.36	347.28
Rent	100.00	186.00	186.00	186.00	196.37	196.37	196.37
Heat, Light, Water and Refrigeration	100.00	303.26	321.03	332.84	298.22	312.37	325.57
Miscellaneous	100.00	237.78	242.87	249.06	217.17	227.03	232.37
General Index	100.00	263.24	276.91	302.59	257.31	272.00	295.75

Indices	Average October, 1939	Consolidated 1941 July	August	Sept.
General Indices:				
American	100.00	234.82	249.55	270.66
British	100.00	247.89	259.70	280.75
Russian	100.00	263.24	276.91	302.59
Other Nationalities	100.00	257.31	272.00	295.75
Consolidated Index	100.00	256.53	270.05	293.91
Purchasing Power of the Dollar	100.00	38.98	37.02	34.02

Chinese Index

Despite the fall in price of rice, the index of cost of living of Chinese workers registered another rise in the month of September. Following the freezing order at the close of July, the price trend continued to ascend steeply and has not yet come to a halt. Shortage of subsidiary notes is one of the contributory factors. The revised general index rose from 885.55 in August to 959.04 in September recording an increase of 8.30 per cent. Among the group indices, the food index has surpassed the 1,000 mark and the heaviest rise was shown by the clothing group. Food index rose to 1,070.51; housing, 725.17; clothing, 692.31; and miscellaneous index, 860.14. Percentage rises ranged from 4.46 per cent. for housing, to 10.52 per cent. for clothing. The purchasing power of the dollar dropped from 11.29 cents in August to 10.43 in September.

Prices of rice dropped during the month. S.M.C. Rangoon rice was further reduced from $120 to $117 per shih on September 1, thus accelerating the downward trend in the rice market. A good autumn harvest, the continuously increasing local stocks, the announcement of allotment of official exchange rates for the purchase of Rangoon rice, the easing of tension in the Pacific during the month, etc., all contributed to the improvement of this essential staple foodstuff. The average retail price of Rangoon rice came down to $112.94 in September as compared with $118.99 per shih in the previous month. Most other commodities, however, showed sharp increases. Average retail prices of fresh fish rose 47,54 per cent. in September when compared with August; duck eggs, 39.17 per cent.; bean curd, dried bean curd and fried bean curd, 60 per cent.; potatoes, 30.97 per cent.; useless timber, 27.50 per cent.; and matches, 17.37 per cent. All clothing items went up in price ranging from 6.25 per cent. for fancy twills to 16.78 per cent. for printed shirtings.

Statistics

Base: Average 1936=100

Indices	Average 1936	1940 July	August	Sept.	1941 July	August	Sept.
Group Indices:							
Food	100.00	464.93	452.92	507.47	869.43	978.96	1,070.51
Housing	100.00	414.18	406.23	405.91	668.18	694.21	725.17
Clothing	100.00	326.79	333.97	337.44	579.10	626.41	692.31
Miscellaneous	100.00	383.39	393.04	399.54	717.60	802.76	860.14
General Index	100.00	442.60	433.64	469.83	800.32	885.55	959.04
Purchasing Power of the Dollar	100.00	23.66	23.06	21.28	12.50	11.29	10.43

Due to recent changes in consumption habits consequent upon the substitution of types of rice purchased, in fuel available, and reduced spending power removing certain goods beyond the capacity of the people to buy, careful adjustments have been made in the commodities and their quantities used in the compilation of the Index of Cost of Living of Shanghai Workers. Henceforth this index will be termed the Revised Index. Former rent and fuel groups have been combined into a housing group to conform with more modern practice. Changes have also been made in the assumed "Minimum Subsistence Standard."

Attention is drawn to the fact that these index figures apply to the standard of living of Chinese workers. They do not represent the situation ruling among Chinese salaried employees.

The following figures show what a worker's family of 4.62 persons should receive from the earnings of a principal wage earner, from those of other members of the family and from other sources. By earnings is meant wages together with allowances of all kinds. The figures are based on what study shows to be the composition of family income, and on the cost of living ruling in September. Figures are given to show the cost of two standards of living. Standard A shows what the earnings should be on the revised standard of living (replacing the 1936 standard) and Standard B shows what earnings should be on a minimum subsistance standard.

	Standard A	Standard B
Earnings of principal wage earner (53.3%)	$121,975	$103,174
Earnings of other family members (34.0%)	77,808	67,728
Other family income (12.7%)	29,064	25,298
Total Family income (100.00%)	228,847	199.200

The Future of Cotton

By SIR HOMI MEHTA, K.B.E.

(The Indian Textile Journal)

THE history of production of cotton has chiefly been associated with the history of America in particular, and with those of India, China and Russia in general, for the last 150 years. One hundred and fifty years ago the world's production of cotton was merely 1 million bales and that of the U.S.A. 3,000 bales.

In America

America started her cotton production activities with the coming of George Washington as the first President of the U.S.A. The phenomenal rate at which it expanded its production can be gauged from the following figures:—

	Bales
In 1800 the U.S.A. produced	3,000
,, 1825 ,, ,, ,, ...	533,000
,, 1850 ,, ,, ,, ...	2,136,000
,, 1875 ,, ,, ,, ...	4,303,000
,, 1900 ,, ,, ,, ...	10,123,000
,, 1925 ,, ,, ,, ...	17,977,000

Such a terrific increase in the production of cotton in this country cannot fail to capture the imagination of any student of cotton. The U.S.A. first started growing cotton on a commercial basis with cotton as the chief source of cash income, and extended cultivation of this product westwards from decade to decade till it embraced the whole of the cotton belt extending as far as the great open plains of Texas as we see them to-day.

The income of the farmers growing cotton in the U.S.A. has been one-fourth of the entire income of the farmers in that country and the export of cotton from the U.S.A. has approached nearly 40 per cent. of the value of all exported products from the U.S.A.

Other Countries

The expansion of cotton in countries other than the U.S.A., though not so phenomenal in the last century as in U.S.A., has been really so during this century. India, Russia, China, Egypt, Brazil and other miscellaneous countries between themselves now grow the staggering figure of nearly 17 million bales of cotton as compared to the 6½ millions they grew in 1902.

Year	(In 000's) American	Other countries
1902-03	10,827	6,578
1912-13	14,313	10,133
1922-23	10,370	10,003
1932-33	13,902	11,330
1940-41	12,500	17,216

That these countries have immense potentialities of expanding cotton cultivation is evident from the above figures alone. Brazil, aptly called the "Sleeping Giant of the World," has potentialities so great that it could one day vie with the U.S.A. in the matter of quantity produced as she already does to-day in the matter of price and quality. Likewise, the immense expanses of the Russian and Chinese plains, given peace and political stability, can bring into being much larger quantities of cotton than they do to-day.

Range of Varieties

With the expansion of cultivation throughout the world the range of varieties has considerably widened, the finest cotton producing a staple as long as nearly 2 inches and the shortest ⅜ inch. Owing to the rapid multiplication of countries producing cotton there has been a very healthy competition between them with regard to offerings of cottons of all descriptions on the markets.

If we cast a glance at the history of cotton production and examine the vagaries to which it was prone, the one outstanding inference we will draw will be that the world *too much depended* for its requirements of cotton upon the U.S.A. To give an idea how it was dependent upon this one country alone, it will only require us to recall the violent changes that have occurred in the last quarter of a century in the annual production of the American crop owing to the eccentricities of the weather in the cotton belt, leading to similarly violent changes in prices, which in turn led to equally violent changes in the acreages for immediately succeeding years. So terrific were the shocks to which the consuming world was subjected by such convulsions in the American markets that certain consuming countries like Great Britain, through sheer desperation, attempted to seek refuge from the onslaughts of such violent price fluctuations by establishing organizations like the British Cotton Growing Association, whilst Japan likewise tried to seek shelter by securing her needs by encouraging production in North China and Manchuria.

Recent Changes in Supplies

But fortunately for the consuming world the whole complex respecting cotton supplies has undergone a radical change within the last decade or two in particular. The dependence upon the U.S.A. alone respecting supplies has to a considerable degree been lessened, and more fortunately still, the pointers are more markedly now towards a still greater independence of the American supplies. The following figures would again reveal the story of the stupendous changes that have occurred in the relative supplies and offtakes of American and outside growths.

	Production		Consumption		Carry-over		Price	
Year	American	Outside growths	American	Outside growths	American	Outside growths	Cents	Rs.
1914/15	16¼	12.0	14.0	8½	6½	4½	7.94	220
1940/41	12½	17¼	11½	16.00	13½	9	15½	255
	—3¾	+5¼	—2½	+7½	+7	+4½	+7½	+35

The staggering carry-over of the American cotton alone should expose the precariousness of its position.

Future Prospects

With such revolutionary changes having occurred within such a short span of time, particularly on the production side, it only leads us to inquire as to what would be the trend in regard to the future possibilities of production of cotton. The answer to this would directly depend upon the following factors:—1. Price trend. 2. The American Government's policy. 3. Trend of international politics. 4. Competition of other fibres.

Price Trends

No discussion of the future of any major commodity can be complete without probing into the price factor which governs its supply and demand.

The cotton plant, by virtue of its hardiness, can withstand the rigours of adverse climatic conditions. That its cultivation has spread so rapidly within the last two decades is proof positive of its adaptability to almost all tropical and semi-tropical climates, and consequently its capacity to be grown very cheaply. It being the best cash crop, its cultivation is maintained from year to year with hardly any change effected in acreage outside the United States. In fact the possibilities are that with better manuring and more scientific methods of cultivation adopted, the farmers of India, China, Russia and South America will grow cotton more abundantly and more cheaply than hitherto. The phenomenal rise in the yield per acre in recent years in America only gives evidence to this possibility in other countries too. The price factor is hardly, therefore, going to affect production outside the U.S.A., at least for some years to come. India, however, which produces almost the lowest yield per acre, will have to wake up before other countries steal a march over her.

U.S.A. Government's Policy

But the greatest friend of the foreign farmer has been the American Government who so generously has held an umbrella over him in recent years and virtually goaded him to grow more and more cotton. The American Government with its suicidal experimentations with price control since the birth of the Farm Board over 10 years ago has defeated her own purpose by encouraging production outside, and discouraging production inside her borders. All the Farm Acts the Government so benevolently passed to raise the income of the grower have proved to be a mass of gigantic financial blunders. If this Government had not in a reckless manner granted, in the earlier years, loans much higher than would have stood for the average economic prices from season to season, the world would perhaps have never seen such a stupendous increase in the growth of outside cottons and accumulation of gigantic stocks everywhere, with such terrific consequences, on the price level of cotton, and the consequential accentuation of the terrible trade depression under which the world has groaned during the last decade.

Her loan policy on the one hand and her high tariff policy on the other have together almost completely driven America away from the world's markets. She has struggled hard in late years to regain her lost share in the world's markets, and excepting through one novel device she last year adopted, she has lamentably failed in all her attempts at regaining such markets.

This novel device has been the granting of an *export subsidy.*. Though at the expense of her taxpayer, this policy, of all others, succeeded in securing for her, her lost markets in a large measure. But the war has intervened this year and this policy has been allowed to remain in abeyance. Whether this policy, if resumed, would succeed or not is open to question, but commonsense suggests that such a policy, if long pursued, can drag any Government to the verge of bankruptcy.

Competition of Other Fibres

There are many fibrous materials such as jute, wool, hemp, flax, rayon and silk which could compete with cotton in varying ways. All these fibres, excepting rayon, have been in existence for many years, but they don't seem to have encroached upon the domain of cotton, nor to have kept pace with the expansion of cotton cultivation. Amongst the fibres mentioned above, jute, flax and hemp have at times come in conflict with cotton on the borderland of its activities in industrial spheres such as bagging, rope-making, etc.; whereas raw wool, silk and rayon have at times usurped the place of cotton on the borderland of its activities in textile manufacture; but none of them has ever threatened to dethrone cotton from its place of dominance over them all, simply because cotton is so cheap, so useful, so popular and so strong. While referring to these sister fibres, a special reference to the latest and the most modern of fibres, namely, rayon, would be of real interest.

Rayon

In the production of this synthetic fibre phenomenal gains have been made within a decade. The greatest gain has been made in staple fibre, that is, rayon chopped into short lengths to be spun with wool, cotton, or silk. Its chemical composition enables lustre, adaptability to dyes, and beautiful elasticity to be secured, whilst its curling properties impart a fine sheen and appearance to the cloths spun out of it. All textile centres now use it for light linen cloths and other decorative fabrics. It has, however, a drawback in that it is not very strong in wet state, but great scientific research is fast overcoming this drawback. Germany has excelled all countries in the use of this fibre, having developed more than 50 different brands of synthetic fibres.

Its cost of production is being greatly reduced, and whilst it cost 60 cents per lb. for staple fibre in 1928, it cost only 25 cents in 1938. By reason of its wastage in the spinning process being at least 10 per cent. less than cotton, its competitive power with cotton is pretty great. The competitive position of staple fibre amongst the fibrous materials in 1937 was:—

Production

(000,000 of lbs.)

	1913	1929	1937
Cotton	10,560	12,702	18,480
Jute	3,940	4,180	4,070
Wool	1,531	1,978	1,980
Hemp	1,210	1,170	1,790
Flax	1,625	1,340	1,713
Rayon Filament	25	435	1,187
Rayon Staple Fibre ...	—	7	622
Silk	64	134	127

These figures speak of the stupendous strides made by rayon within such a remarkably short time. The use of rayon has been particularly phenomenal in countries which have striven to be independent of other fibres. Whilst in the U.S.A. the use of this fibre in men's and women's wear has already exceeded the use of wool, in the Axis countries just prior to the war its use had been made compulsory for the purpose of obtaining self-sufficiency and supporting their exchanges. Germany for instance, provided for 30 per cent. of her clothing through rayon, whereas Japan has likewise striven to clothe her population a good deal through this fibre. It is only when cotton is very cheap that this fibre does not make great headway, and the American Government will have to thank themselves if by bolstering up their cotton prices they encourage further the manufacture of this fibre in increasing quantities. For the consuming world, however, this fibre is a blessing in that it will enforce cheap supplies of cotton and other allied materials by maintaining constant competition with these.

A passing reference to the activities of some of the leading manufacturing countries would be necessary for the treatment of this subject.

Great Britain

This country, once the king amongst consumers of cotton, in recent years, has lost her pre-eminence as rapidly as America has in cotton production. The opening of the Suez Canal, which flung wide open the doors of her vast Empire for the purchase of her goods, installed her as the king of consumers of cotton, but her position has rapidly deteriorated for the following reasons:—

(*a*) The rapid expansion of the cotton industry in Asia.

(*b*) Her mill machinery being very much out of date as compared to that of Japan and other newcomers.

(*c*) Her expensive labour and her conservativeness at not rapidly changing her production with the change of fashion, as Japan does.

England has lost her ground woefully, and unless she adapts herself to the new methods and systems for conducting her industry, she should not ever hope to regain her past eminence.

Japan

This marvellous country has caused alarm amongst European suppliers of goods by capturing a major portion of their markets. She, by her wonderful system of engaging cheap but efficient woman-labour, by installing the most efficient machinery, by pursuing scientific methods of buying the raw material at the cheapest parities, by subsidizing her exports through cheap ocean freight and insurance, has virtually caused havoc amongst her competitors in the world's markets.

She has considered her cotton industry as of such great importance to her that she has actually *made it the tool by means of which she aims at realising even her political aspirations.* In her determination to attain political domination in China and Manchuria, she has for some time past set herself the task of securing her foreign exchange for the purpose of financing her war in China by just pushing her cotton goods abroad and buying her raw stuff as far as possible from within the yen area. Her dominant desire appears to be completely independent of America and India for her cotton supplies to draw these from a subjugated China, to manufacture these at home and to re-export these everywhere.

Having attained mastery in the art of spinning cotton, Japan is unlikely to lose ground soon, and whether she secures political dominance or not, she will nevertheless continue to be a great consumer of raw cotton.

India

This country of ours, which has been making rapid headway towards self-sufficiency in the matter of textile production, is in a peculiarly advantageous position like the U.S.A., inasmuch as she has at her very door the supplies of cotton she needs, as also all the climatic, labour and marketing facilities for the manufacture and disposal of her textiles. She is particularly fortunate, like the U.S.A., to have the two-fold advantage of being at once a purchaser and a consumer, and what is more important, her potential capacity for being a much greater producing and consuming country than she is to-day is very vast. Her latent capacity for producing a much richer harvest of cotton both in quality and quantity, for manufacturing almost all the cloth needed by her teeming population and for creating an ever-expanding market within her own borders for her ever-increasing output is, to say the least, enormous. All that is necessary is to fully realize and studiously tap these potentialities of hers.

India as Producer

India's production of raw cotton, though it has not expanded as rapidly as that of the U.S.A., has at least increased gradually to above 5 million bales (of 400 lbs. each) and has offered formidable competition to the American production. Unfortunately the quality of her production has been a constant eyesore to her and though her climatic and soil conditions have as a whole acted against her, much could have been done in this regard if a determined and deliberate policy of remedying this drawback had been pursued all this while. It is only lately, i.e., since over a decade, that steps in this direction have been initiated by her, particularly by the creation of the Indian Central Cotton Committee. This Committee, may it be said to its credit, has tried its best to achieve good results—such, for instance, as the introduction of the Indian Cotton Transport Act, the Ginning and Pressing Factories Act, the financing of research and seed distribution, but it may with equal truth be said that much more still remains to be done by the various responsible bodies concerned. The most lamentable feature in the whole marketing system here is that a poor farmer, if ever he attempted to grow a pure and superior quality, does not happen to get a higher price commensurate with such superior quality of his. Mixing with lower stuffs is the curse of this country's marketing practice and, though the remedying of this thorny question bristles with many practical difficulties as experience might have shown and a full discussion of this all-important subject is outside the purview of this theme, it may at least be said with all seriousness, that unless India takes firmly in hand the speedy remedying of this quality drawback, she will never achieve her self-sufficiency goal. We want quality, not so much quantity. What's the use of our being at the mercy of Japan, for instance, in marketing our *Oomra* and *Bengal* crops, when we have great room for improving the staple lengths of our cotton and consuming it ourselves. Such improved varieties as 289F, Sindh Sudhar, 1027, ALF, BD 8, Hubli Jayvant and Tirupur Combodia, as evolved in recent years, have at once found favour with our mill industry and are commanding a fair premium. There is inexhaustible scope for further improvement all round, and in fact it should be a cardinal policy of our Government that India should have as her final goal, the complete elimination of low-stapled cotton and a speedy installation of high-stapled cotton for her own needs.

India as Consumer

The potentialities of India as a consumer and producer of raw cotton are very great. Indian mills have multipled greatly in recent years, but why should it be that with so much of cotton, so much of labour and so vast a market here, we should have to import cotton goods from abroad. Great improvements in the management of the mills and scientific methods of buying the raw materials at opportune moments, as effected by Japan, should be made. The Rs. 50 per candy import duty imposed on cotton, though really welcome from the point of view of the producers of good staple cotton in India, should be abolished against very long staple cotton by the Government to enable much larger production of the very superior grade of cloth from the very high stapled cottons like the Egyptian and others which really do not enter into serious competition with the Indian cotton.

With great efforts, therefore, both in the direction of producing superior cotton and of introducing efficient methods of conducting the industry and of installing only the most up-to-date time-and labour-saving machinery, a great future lies ahead of India, the second largest producer of cotton and the second largest populated country in the world.

After the War

Reverting to the main theme of our discussion, namely, the future of cotton, no treatment of it would be adequate without an attempt being made to envisage the future fate of cotton directly likely to result from the events that will immediately follow the cessation of hostilities.

A cursory glance at what happened immediately after the last war would be of interest. Cotton, soon after the opening of hostilities in 1914, dropped rapidly on the markets of Europe, blocked by the British Navy, being closed. The submarine menace equally hampered the despatch of cotton to England and consequently the markets sank to low levels. This remained so for some time, but gradually with the world settling down to war conditions and the American crops creating their usual stunts of producing exceptionally low yields following curtailed acreages and whimsical weather conditions, and, above all, with inflationary influences setting a pace, a spell of gradually rising prices set in; and when the war was over and the tremendous vacuum of deferred demand from Europe manifested itself, a state of upheaval in the price levels of cotton also set in. Inflation, let loose, gathered momentum as each stage of price advance index of commodities was reached, till in 1920 the price of American cotton in Liverpool rocketed up to the dazzling height of 31*d.* per lb. of Egyptian cotton to the giddy heights of 106*d.* per lb. and of Broach cotton to the sky-high level of Rs. 900 per candy. Then came a crash with the reversal of the inflationary mania, causing collapses of house after house of long-standing repute and bringing in an era of depression and misery from which the world has yet to recover.

This war is the outcome of the folly of handling short-sightedly the affairs of the aftermath of the last war. America having had no little share of responsibility in that regard.

And when, therefore, we are again in the throes of a terrible conflagration, we are anxious to know what will happen to cotton prices this time. The salient differences in the features of the aftermath of the last war and this war may be visualised as under as far as cotton is concerned.

The last war saw the *inflationary trend* carrying prices to feverish heights, whereas the possibilities this time are that with the definitely defined policy of both Great Britain and America to finance the war through taxation and economy in home consumption as far as possible, the repetition of the uncontrolled situation that we witnessed the last time will not be seen. Last time's inflation was followed by a severe depression which affected adversely the consumption, whereas this time, if inflation be avoided, the depression will be avoided too, with no deleterious effect on consumption. As it is, evidences are not wanting in America of the Government there desiring rather wisely to curb inflation, by controlling prices through price ceiling devices.

Last time the world's total supplies of all kinds of cotton (including carry-overs) were only two-thirds of the present total supplies; for instance, whilst there were 37 million bales in 1918, there have been 50 million bales this season. Also whereas the carry-over of all kinds of cotton in 1918 was nearly 10 million bales, it is expected to be over 23 million at the end of this season ending 31st July 1941. This statistical position itself would all the time exert its influence

(Continued on Page 92)

FINANCE

Shanghai's Exchange Market

BY ROBERT W. BARNET

(Far Eastern Survey)

TWICE during the past half year, financial circles in Shanghai have been excited by reports that the United States Government proposed to freeze foreign dollar assets held in American banks either abroad or in the United States. Each time the excitement in the Shanghai exchange market had an immediate and related political background—one which contained a threat either to the security of Shanghai or to Chinese morale as a whole.

From the standpoint of Shanghai, freezing would mean the institution of a drastic limitation upon the unrestricted convertibility of the Chinese dollar in the local exchange market. This development would produce profound effects upon the entire economic life of Shanghai and, indirectly, upon the currency situation throughout China. From a broader standpoint, any specific or blanket freezing order issued by the American Government would represent an intensification of America's "duel of dollars" waged against the Axis powers. Within these two perspectives lies the problem of the Chinese dollar at Shanghai.

Shanghai's first peak of excitement over freezing was reached last December, about two weeks after Japan's recognition of the Wang Ching-wei régime. The second peak was reached about two weeks after the Soviet-Japanese neutrality agreement of April 13, 1941. On the first occasion, the United States Government announced a $50 million credit for the stabilization of the Chinese currency. At the same time, the British Government made available £5 million for the same purpose. Twelve days after the signature of the Soviet-Japanese neutrality agreement, negotiations were completed leading to the formation of a joint Chinese-American-British Currency Stabilization Committee.

The timing of these announcements of American and British financial aid to China has had political, as well as economic, motivations. The problem of the stabilization of Chinese currency itself, moreover, has political as well as economic aspects. These two aspects of the problem come to a sharp focus in the situation at Shanghai. This situation will become one of the principal concerns of the new committee established to administer the replenished financial resources devoted to the support of the Chinese currency.

The chairman of the new committee will be Mr. K. P. Chen, until recently head of the Chinese Foreign Trade Commission and formerly associated with the Universal Trading Corporation which utilized the credits advanced to China by the Export-Import Bank. Representing the United States on this committee will be Mr. Manuel Fox, of the United States Tariff Commission, who will have as his alternate Mr. William Taylor, of the Division of Monetary Research of the United States Treasury. Representing the British will be Mr. Cyril Rogers, formerly a member of the Anglo-Chinese Stabilization Committee which came into being in March, 1939. Two additional Chinese members, Mr. Tsu Yee Pei and Mr. T. N. Chi, will serve on the committee.

Purposes of Stabilization Committee

This committee will utilize the new American and British credits in such a way as to arrest a dangerous tendency towards currency and price inflation in free China, to regulate the foreign exchange value of the Chinese dollar, and to prevent the financial resources which have accrued to the Chungking Government from being utilized for the benefit of Wang Ching-wei or the Japanese. These financial resources exceed U.S.$100 million, consisting of the new American and British loans of U.S.$70 million and the unknown residuum of the old Anglo-Chinese Exchange Stabilization Fund (probably somewhat less than U.S.$15 million), plus U.S.$20 million allotted by the Chinese Government to the fund.

Shanghai will constitute one of the most complicated problems to be encountered by the new committee in realizing its objectives. The city has been, during the past four years, both the victim and the beneficiary of war. Lying at the mouth of the Whangpoo River a few miles from its point of confluence with the Yangtze, it was squarely placed in the path of Japan's military and naval campaign in central China. Shanghai was a metropolitan mosaic comprising a purely Chinese administrative unit; an international settlement and a French concession. Within the two foreign areas the Chinese exercised only very limited authority, due to special treaty rights possessed by the autonomous foreign governments of these areas and by individual foreigners enjoying the privilege of extraterritoriality. While the Chinese city fell under the control of the Japanese Army during 1937, within the foreign areas the pressure of Japanese Army controls was exercised indirectly. As the Japanese Army extended its control over the entire lower Yangtze valley and along the shores of the Yangtze River, the foreign areas at Shanghai acquired unique significance. The Chinese Government had no power to exercise any effective control within these areas, while the Japanese Government, fearing the international repercussions which would follow upon direct action, preferred to abstain from taking drastic measures which would destroy the political status quo of the foreign areas.

In this state of affairs, the exchange market at Shanghai became a place where financial and trading transactions were conducted without political interference by either belligerent in the developing hostilities draining the resources of the governments and peoples of Japan and China.

Capital Flight From and To Shanghai

During the initial period of Sino-Japanese hostilities, Shanghai's great industrial resources were either destroyed, disabled, or starved for raw materials; Shanghai's commercial life was at a standstill; and the threat to life and property was so great that those with liquid capital sought to disperse it to safer regions, either in China or abroad. However, when it became evident that the foreign areas in Shanghai were to remain safe from danger and free from wartime political control, the process was reversed. In consequence, rich refugees and liquid funds from all over China began to return to Shanghai. At first the purpose of this flight was primarily to find physical safety from war. As time passed, however, Shanghai acquired an additional attraction. Because commercial facilities were varied and relatively uncontrolled, and because cheap labor and the presence of industrial skills combined to produce a swift industrial recovery, Shanghai became an area where investors began to put their money in goods or industries as a hedge against the depreciation, on the broader stage of Far Eastern economic life, of the currencies of China and Japan.

The depreciation of the Chinese dollar during the four years of Sino-Japanese hos-

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tilities may be seen in the following sample figures. In July, 1937, the value of *fapi* (the Chinese national dollar) stood at U.S. $.2925; during 1938 it gradually declined, falling to U.S.$.1562 at the end of the year. In the presence of this trend the British, in co-operation with the Chinese Government, set up a £10 million exchange stabilization fund in March 1939. Its purpose was to buy and sell Chinese dollars in the Shanghai market, with the aim of preventing excessive exchange fluctuations. During the spring and early summer of 1939 demand for foreign exchange for speculative purposes (including a movement of *fapi* from North China to Shanghai) and for import cover became so great that in June the Anglo-Chinese committee was forced temporarily to withdraw support.

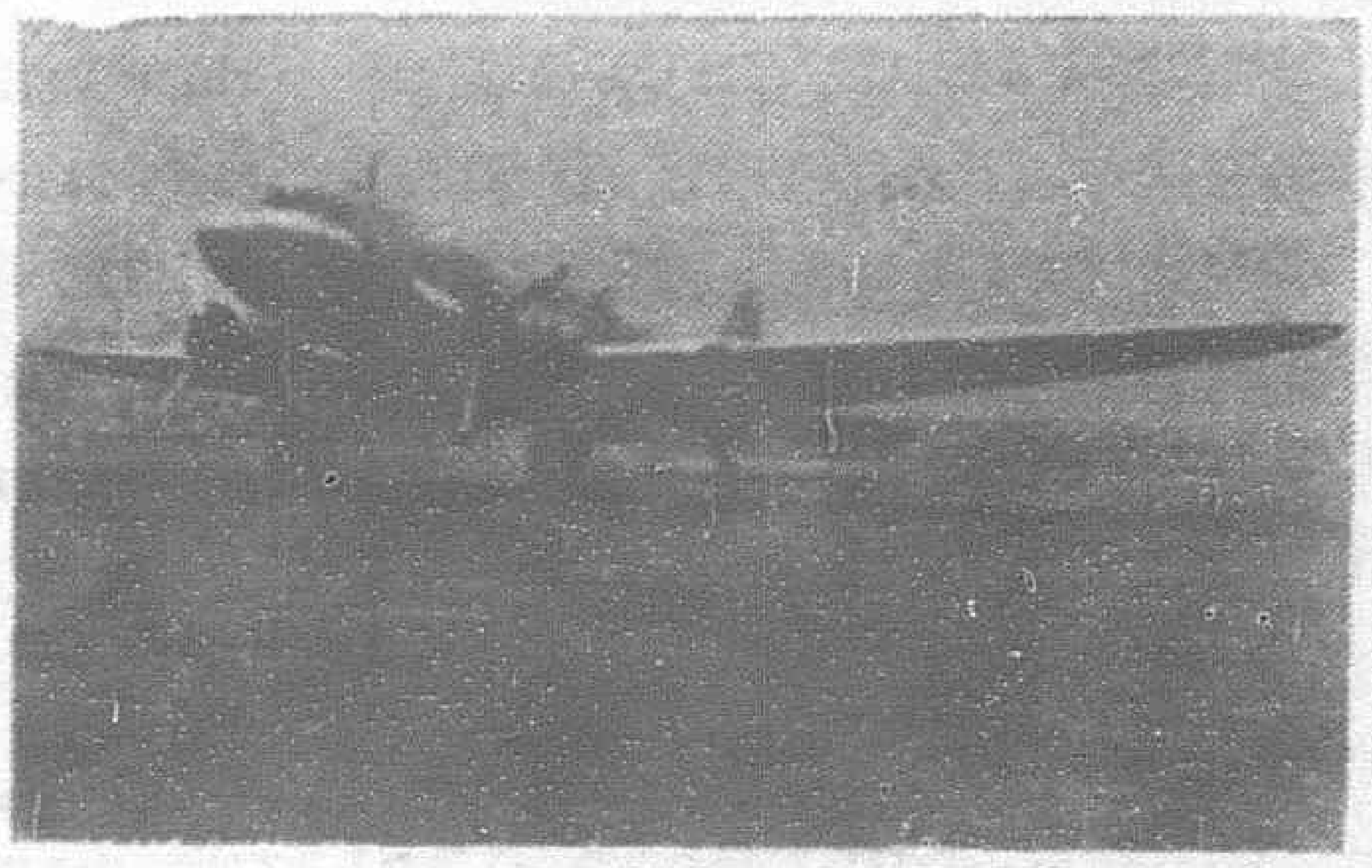
During June the value of the Chinese dollar fell to U.S.$.1281, at which point the stabilization committee attempted to resume support. Nevertheless, the Chinese dollar fell again in July 1939 to an average for the month of U.S.$.0775, and declined gradually from this level until the spring of 1940 when, on May 2, it fell to about U.S.$.04—an all-time low. Speculative pressure for foreign exchange and unprecedented demand for import cover once again accounted for this drop in the value of the Chinese dollar. In mid-May, military developments in western Europe and a crash on the New York stock exchange produced a counter-development. Holders of foreign currencies began to move back into *fapi*. From May until the end of 1940, the Chinese dollar remained relatively stable, actually appreciating in value towards the end of the year.

During this period of time, the Anglo-Chinese Exchange Stabilization Committee remained fairly inactive in the Shanghai market. When it did operate, it did so inconspicuously, buying back foreign exchange which had been paid out in the pre-May period of intense import and speculative demand. According to authoritative estimates, the committee, in the efforts to stabilize the Chinese dollar during 1940, suffered a net loss of foreign exchange totaling not more than £1.7 million. Obviously, the use of £1.7 million could not have accounted fully for the foreign exchange support which conferred upon the Chinese dollar its relative stability during the second half of 1940.

Estimated Balance of Payments

China's balance of international payments was estimated in Hongkong shortly before Mr. Currie's arrival in China. With regard to current payments, it was assumed that during 1940 as a whole China's imports of merchandise amounted to an adjusted value of some U.S. $363.6 million, while exports totalled about U.S. $128 million. Hence, China's adverse balance of trade amounted to U.S. $234.6 million. However, in addition to the export of merchandise, China obtained foreign exchange through export of gold, export of silver, regular overseas remittances, and regular contributions back to China of overseas Chinese; though foreign expenditures within China, such as those for missionary and philanthropic enterprises, for upkeep of foreign embassies and consulates, for foreign shipping and foreign tourists; and through receipts from Chinese investments abroad. These items, larger than China's exports of merchandise, amounted to about U.S. $134 million. These resources plus China's merchandise export, set against China's imports of merchandise alone which required payment in foreign exchange, left an apparent deficiency of slightly over U.S. $100 million. This deficiency was increased by other outpayments, however, including in round figures U.S. $4 million on upkeep of Chinese embassies and consulates abroad, U.S. $2 million for profits of foreign firms remitted abroad, U.S. $20 million for Chinese Government purchases abroad, and U.S. $3 million for foreign expenses of various Chinese Government offices. In addition to these items, flight of capital and unaccountable expenditures amounted to U.S. $10 million. Outpayments amounted, therefore, to some U.S. $403.6 million, exceeding the inpayments by more than $10 million.

After the middle of 1940 developments occurred entailing extraordinary nonrecurrent movements of funds. They were the direct result of spectacular events in Europe and of their repercussions in southeast Asia. The invasion of Holland, the capitulation of France and the portentous threat to England in the summer and fall of 1940 produced an immediate and profound uneasiness in the Far Eastern colonial empires. Moreover, these developments hastened and accentuated the institution of stringent economic controls. Chinese emigrants residing in those areas, apprehensive of the effects of government control over their property, hastened to transfer liquid capital to China and especially to Shanghai, where they expected freedom from political controls. According to Chinese banking estimates, some U.S. $46 million flowed from the South Seas back to China during this period; about U.S. $28



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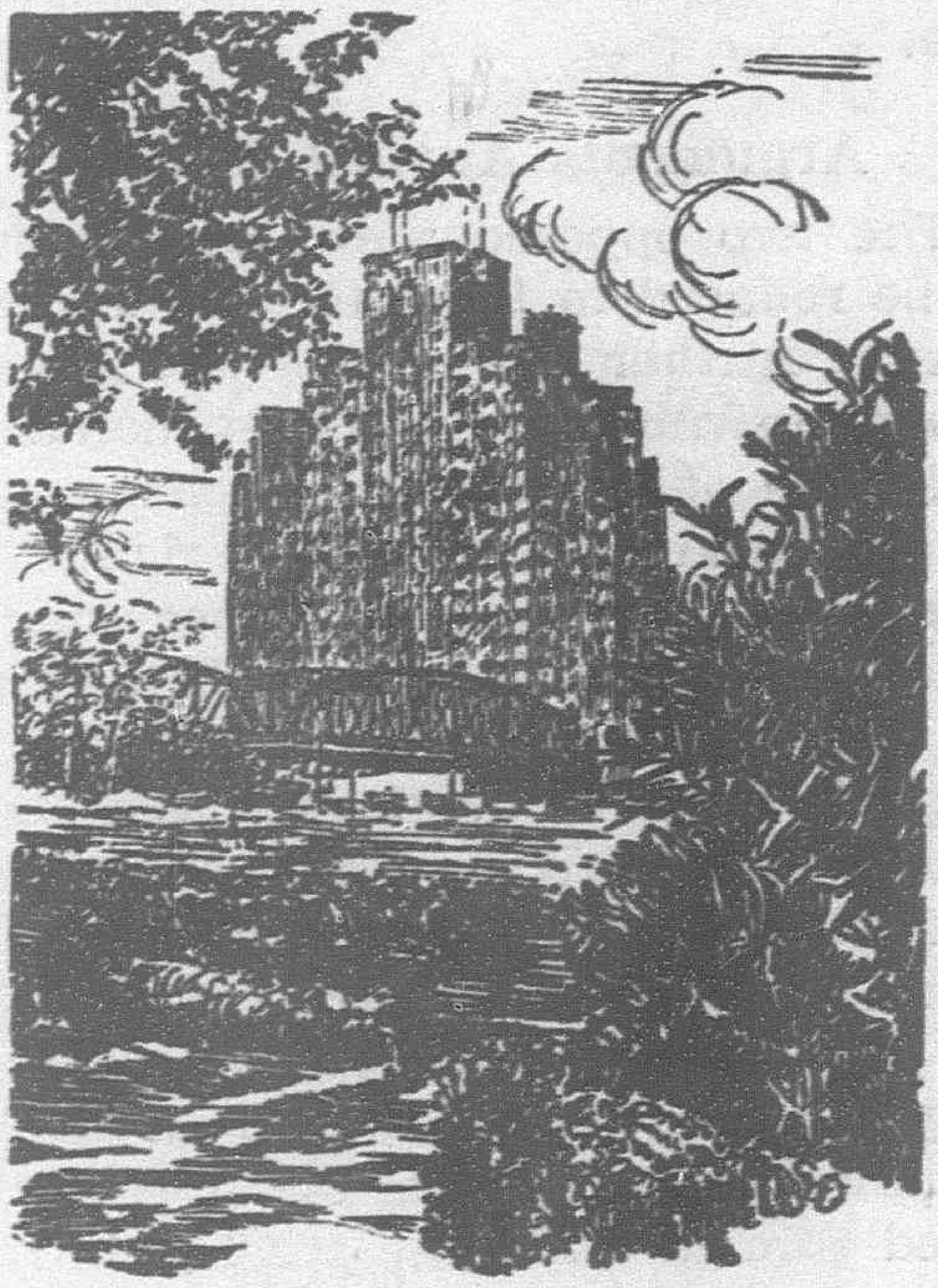

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million was repatriated from Bangkok; U.S. $20 million in Chinese Government notes was exported to meet demands arising in these areas; U.S. $5 million was invested in Chinese Government gold bonds; U.S. $8 million of foreign currencies held abroad, especially in the United States, was unhoarded by Chinese for repatriation to China; and, finally, the Chinese Government allotted to importers at official and commercial rates some U.S. $27 million from its currency reserves. This inflow to China's capital account amounted to roughly U.S. $140 million.

Nonrecurring Items

Therefore, China's international payments during 1940 were balanced primarily through the operation of these politically motivated, extraordinary and non-recurring developments. Cognizance of this fact led Chinese bankers at the end of 1940 to state that the Chinese dollar in the Shanghai market could not, with available resources, be stabilized at its existing level. What was in their minds was the fact that, though the British and American Governments had allocated some U.S. $70 million towards support of the Chinese dollar, the expectation on the basis of China's current accounts for 1940 was that at least twice this sum would be required within the practical framework of possible trade movement to support the Chinese dollar at its existing levels.

Because China's excess of import over exports constituted the most serious drain upon her foreign exchange resources, and because Shanghai claimed more than 50% of China's total trade, the Shanghai picture occupied and still occupies a central position in consideration of China's future currency problems. Because technically and administratively China is too primitive and too large, herself, to exercise, with any prospect of real success, effective control of trade and rationing of foreign exchange, the consensus of banking opinion was that exchange control could be most successfully implemented through some action on the part of the Government of the United States, where most of the foreign exchange resources of Chinese banks have accumulated. This action, it was thought, would take the form of an official freezing order which would tie up American dollar deposits in American banks in China and in banks in the United States. Such an order would create specific limitations upon the freedom of the foreign exchange market at Shanghai by limiting its dollar supply. The advisability of such an action became, and continues to be, the subject of intense controversy in Shanghai and indeed in financial circles throughout China.

Arguments Against Support

The two opposed views on the subject may be reduced to these terms. Those who condemn further support of the Shanghai exchange market have said that the existence of this area of uncontrolled exchange operations attracted the capital of rich Chinese whose resources, in consequence, have not supported China's war effort. The existence of a freely convertible Chinese dollar in Shanghai, they contend, has enabled the Japanese and the Wang Ching-wei régime to gain free access to the foreign exchange resources of the Chinese Government. They have pointed out, moreover, that even when purely Chinese and foreign industrial and commercial concerns in the foreign areas utilized foreign exchange for legitimate import cover, their commercial transactions in Chinese areas, either free or occupied, could be effected only within the framework of discriminatory and increasingly stringent Japanese controls.

Those who opposed further support of the Shanghai exchange market have criticized Chinese private banks which used this channel to accumulate foreign exchange reserves, thus evading their supposed patriotic duty to invest in China's program of reconstruction in the interior. They have said, moreover, that since for practical purposes the Japanese yen in China and Japan's puppet currencies are dependent for foreign exchange cover on the Chinese national dollar, a precipitous drop in the foreign exchange value of the Shanghai dollar would produce a disastrous decline at the same time in the value of the Japanese yen.

The group which condemned support of the Shanghai exchange market had great confidence in the determination of the United States Government to oppose, in a definitive way and in the near future, Japanese plans for economic and political aggrandizement in the Far East. Flowing from this assurance came a sense of defeatism concerning the immediate future at Shanghai, but a sense of optimism regarding Japan's ultimate defeat.

Arguments for Support

Holding views in contrast were those who strongly favored continued support of the Shanghai exchange market. Prominent among them were those individuals with large immovable properties in Shanghai, commercial banks whose principal realizable assets were obtained and disposed of through exchange operations in Shanghai, and prospering traders who had availed themselves of exchange facilities in Shanghai to buy and sell commodities, both for legitimate trading purposes and for speculation. The official British policy has been that of continuing support of the Shanghai market, being motivated in part by the fact, that, at Shanghai British interests have accumulated some £200 million of property which would be greatly jeopardized by any violent change in the Shanghai situation. These advocates for continued support of the Shanghai market argue that temporary palliatives preserve the status quo in Shanghai, and that as long as Shanghai is a going concern, neither the Wang Ching-wei régime nor the Japanese will desire to take drastic action in dealing with a situation from which they have derived substantial profits. These people, controlling a huge concentration of foreign and Chinese wealth, anxiously hope that Shanghai can escape calamity until the settlement of the European war. Their arguments are, in general, set forth within a framework of narrow self-interest.

However, there are advocates for support of the Shanghai exchange market who offer reasons for this policy based on wider considerations of China's national policy. This group says that as long as the Chinese national dollar is freely convertible at the Shanghai market, just so long it constitutes a powerful, though relatively invisible, weapon in the hands of the Chinese in occupied China, who will hesitate to accept Japanese-managed currencies and to conform willingly to Japanese plans of trade control. In addition to the economic implications to China's national policy of reinforcing this recalcitrance on the part of Chinese merchants and farmers in occupied China, they regard as an asset of real political importance the mere fact that possession of Chinese national currency offers a concrete symbol of the survival of China's political existence.

Finally, this group argues realistically that one of China's principal economic deficiencies at the present time is a shortage of industrial commodities, arising, in part, from defects in China's transportation system. Despite the ravages of war, Shanghai is China's most important industrial center. Despite the obstacles to trade set up by

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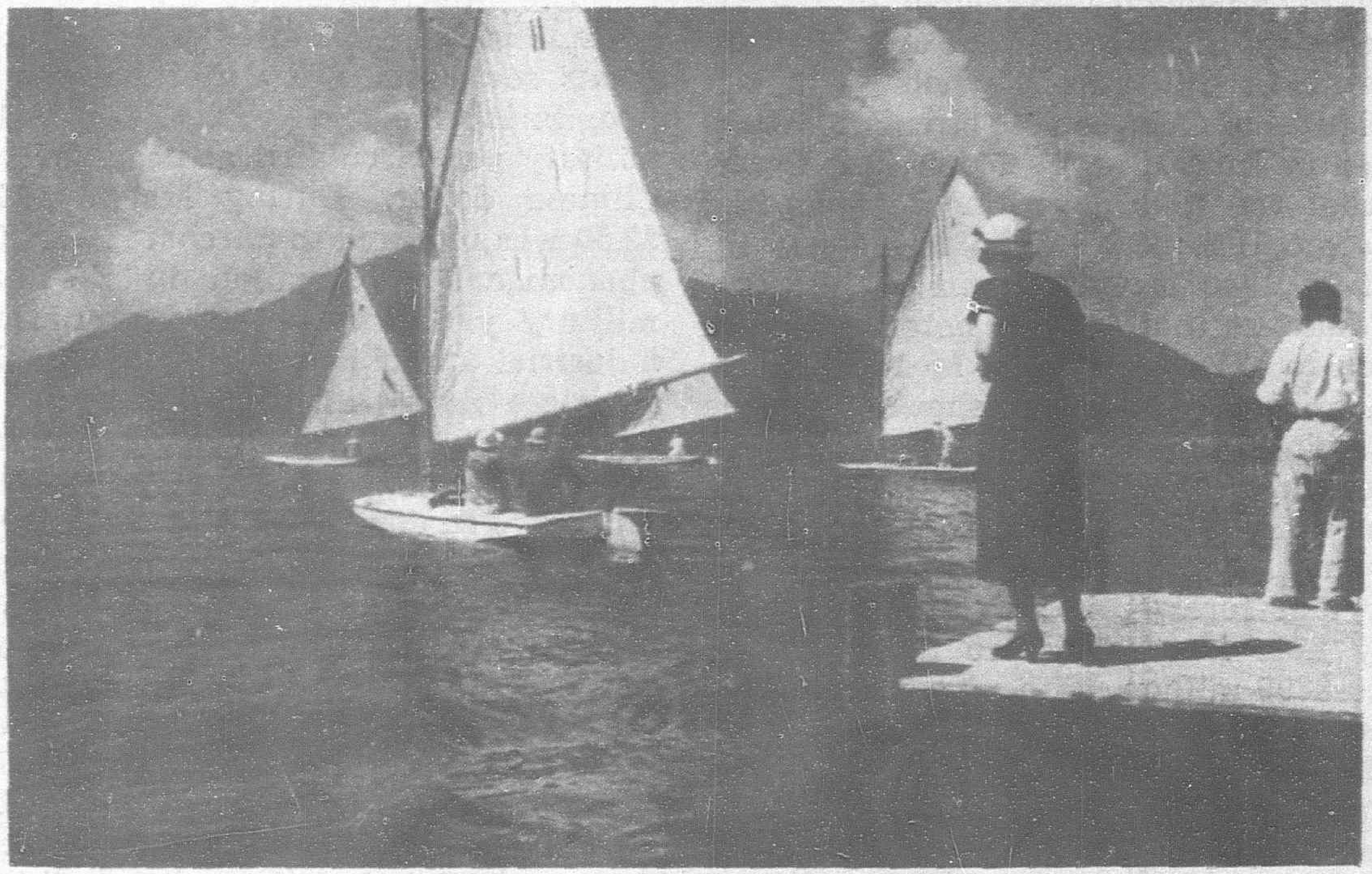

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Japanese military and naval controls, Shanghai remains the most important point of trade leakage into free China. Hence, as long as Shanghai remains a going concern industrially and commercially, the product of its activity meets to some extent a crying need in free China.

In assessing the relative merits of these two sets of arguments, one encounters many delicate questions. One difficulty of reaching a conclusion becomes apparent when the question of Shanghai's exchange market is examined within the context of economic developments in China as a whole The last official figures of Chinese note circulation were published in June 1940, at which time it was stated that the four government banks had issued some U.S. $3.9 billion in notes. By the end of 1940 it was estimated in semi-official quarters that China's note circulation had risen to U.S. $8 billion. Meanwhile, indices of prices in free China showed that the cost of living in such centers as Chungking, Chengtu, and Kunming had risen some 1200% over the 1937 level and had almost trebled since June 1940. In financial circles, both Chinese and foreign, it was estimated that monthly note increases were amounting to Ch. $300-$600 million, with no commensurate increase in government revenue. These currency developments produced as one of their consequences a pronounced preference amongst the populace for holding commodities rather than cash.

Free Dollar and Domestic Prices

In most Chinese banking circles, nevertheless, it has been maintained that inflation had not yet reached a dangerous stage, Supporters of this opinion have argued that the Chinese national banks hold, in United States currency reserves, some U.S. $200 million. Assuming that at the end of 1940 the Chinese note circulation was actually U.S. $8 billion and accepting the foreign exchange value of the Chinese dollar, as measured on the Shanghai market, at about U.S. $.05, they concluded that the Chinese dollar enjoyed 50% gold backing. Rejecting accusations of dangerous currency inflation, they argued that inflationary price tendencies were the product of hoarding, which was an administrative problem, and transportation, which was a purely technical problem. However, they admitted that an announcement withdrawing support from the Chinese dollar in the Shanghai market would constitute, at the present time, an almost fatal psychological blow to the acceptability of Chinese currency in the Chinese interior, and might lead to universal hoarding and to a sharp decline in the domestic purchasing power of the dollar.

The principal components in the problem of Shanghai's exchange market, therefore, are its advantages and disadvantages in respect to the plans of the Japanese, its relation to practical commodity requirements in free China, and its importance, in psychological terms, as a determinant affecting the acceptability of Chinese currency throughout China, including both the occupied and free areas.

The interrelation of the first two components in the problem is evident in developments surrounding the military yen, or *gun pyo,* during the past year. Early in 1940 the military yen circulated at near par with the Chinese dollar. During March 1941, Ch. $2.50 was required to purchase MY.1.00. This phenomenal appreciation in the unbacked military yen was the product of increased industrial and trade control exercised by the Japanese Army in Central China. In concrete terms this meant that in the hinterland of Shanghai the Japanese Army demanded military yen for railway tickets, for utilities and, to some extent, for taxes, and that it had succeeded, moreover, in virtually eliminating commodities handled by third-power or Chinese interests. That is, through the establishment of various trade associations and trade councils, the Japanese had secured a virtual monopoly of both import and export commercial transactions in this area. For these transactions the unbacked but quantitatively limited yen was legal tender; military yen was the required money for future orders of commodities from Japan, the principal market in which buyers could ask for goods. Hence, the appreciation of the value of military yen reflected the development, under Japanese controls, of monopolistic trading conditions in Central China, and indicated, moreover, the speculative expectation that this trend would become more pronounced on the part of Chinese merchants and speculators who bought up military yen with their Chinese national currency.

Clogging Trade Leakage: Gun Pyo

The appreciation of the *gun pyo* alarmed the Japanese military authorities, who foresaw the necessity of paying higher prices for commodities in the interior. In consequence, Japanese military authorities tried, unsuccessfully, to peg the value of their yen at MY.42.00 buying Ch. $100. These developments cast light on China's larger currency —and commodity—problem by showing that third-power or Chinese trade movement from Shanghai into free China has become rela-

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tively negligible. Moreover, they show that the future tendency will be for Japan to have access, through *fapi,* to foreign exchange resources at Shanghai, but that this raiding will not be accompanied by any toleration of non-Japanese trade movement into free China.

The currency situation in Shanghai is further complicated by the fact that the Japanese permitted the Wang Ching-wei régime, on January 6, 1941, to establish its own Central Reserve Bank. The note circulation of this bank, not large as yet, has fluctuated. In April 1941, it stood at some 26 million, which exchanged at par with the Chinese national dollar. Holders of the new Central Reserve Bank notes, therefore, acquire foreign exchange only by exchanging their notes for Chinese national currency. Thus far the Japanese have not permitted the new Central Reserve Bank to foist its notes upon the Shanghai hinterland as legal tender. The circulation of its notes, therefore, is confined mainly to bank deposits in Shanghai, Hangchow, Nanking and Soochow.

Solved By Terror

The most apparent complication arising from the establishment of this bank lies, however, not in the actual extent of its note circulation so much as in the violent practices of the police and espionage forces which the bank is able to employ. During the spring of 1941, Chinese Government banks in Shanghai have been subjected to constant Wang Ching-wei intimidation and intermittent egregious assaults. The most spectacular of these occurred on March 23, 1941, when 14 patriotic Chinese bank employees were killed, 60 wounded and hundreds arrested; and again in mid-April, when mass assassinations on the same scale were repeated. On both occasions the government banks involved closed their doors, but only temporarily.

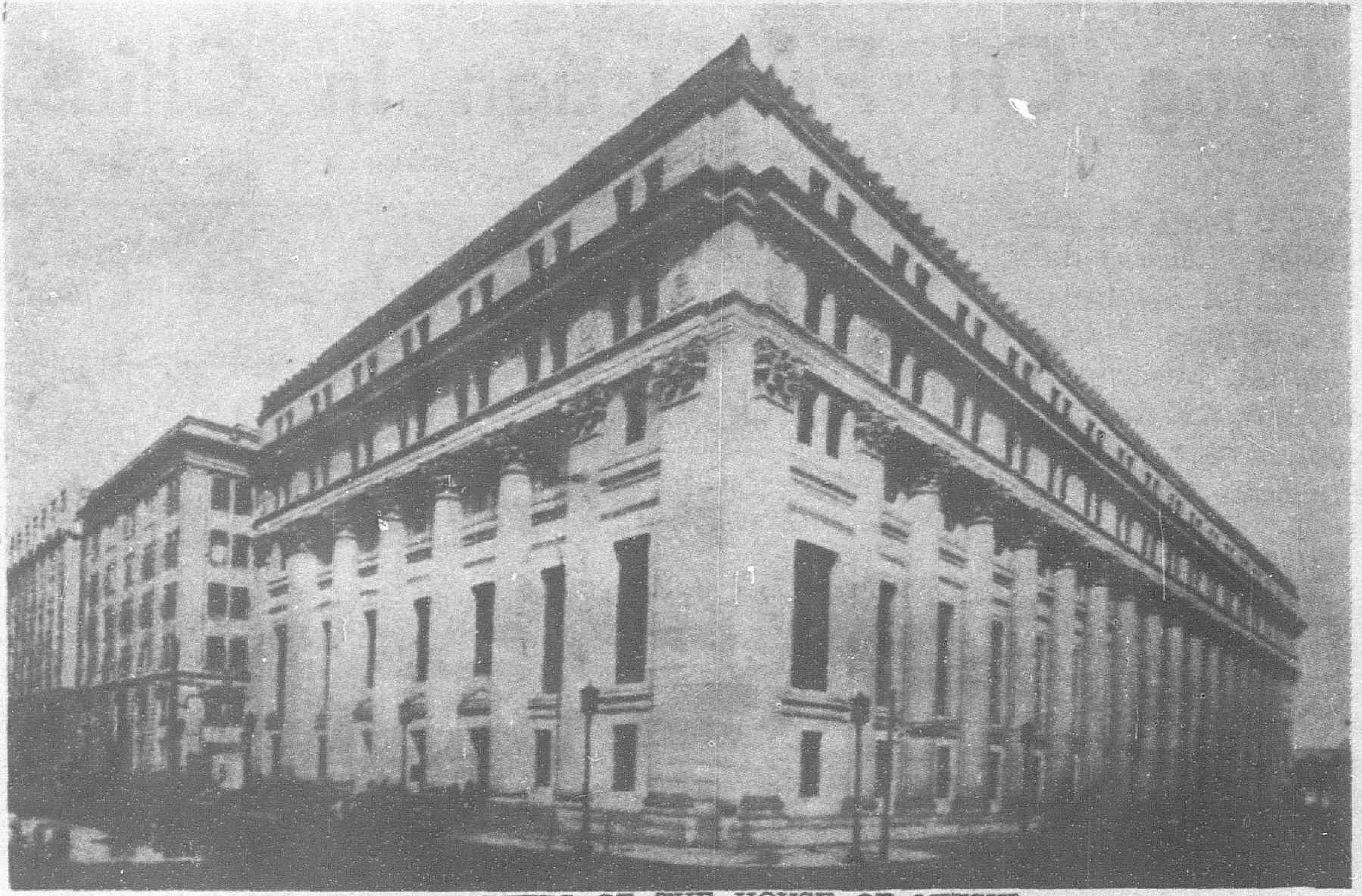
The problem of the support of the Chinese national dollar in Shanghai might be solved by an aggravation of this program of terrorism. The solution would be an involuntary one, involving the forced withdrawal on penalty of death of Chinese Government banks from Shanghai into the Chinese interior or to some other financial center such as Hongkong or Manila.

A second solution for the problem of the exchange market in Shanghai might be offered through direct action on the part of Japanese military authorities, should they decide to assume complete control of the foreign areas at Shanghai. Such action might possibly occur before the outbreak of general hostilities in the Pacific. There is little doubt that it would occur in the event of an actual precipitation of hostilities involving Japan and either the United States or Great Britain or both of these powers. Even if the Japanese Army did not march into the foreign areas to assume all of their administrative functions, Shanghai, in effect, would be abandoned to the Japanese. This would be the case because Shanghai's economic importance derives primarily from the fact that into and out of these areas, to and from the outside world, trade has been free to pass with relatively little interference.

War and naval blockades in the Pacific would automatically terminate the free flow of this trading activity. In the presence of such a situation, there is little doubt that Chinese, American and British banks would close their doors. Already the practical aspect of such a development has been adumbrated by shipping shortages left at Shanghai as a consequence of the toll of vessels exacted by the battle of the Atlantic. Even in the event of war in the Pacific, a black market for the Chinese national dollar at Shanghai would undoubtedly persist, but its psychological effect upon the rest of the country would be only in relative terms more important than the clandestine exchange transactions now taking place in Tientsin.

Should neither of these two developments occur, the problem of the Shanghai exchange market must be faced by the new Exchange Stabilization Committee which will begin its operations in the near future. The consensus of Chinese banking opinion would probably favor an unannounced cessation of support of the Shanghai market, accompanied, if possible, by the institution of a program of exchange rationing. The pursuit of these two policies would probably involve permitting the Chinese dollar at Shanghai to decline to lower levels than ever before. The institution of exchange rationing would entail a restriction on the amount of American dollars which could be obtained through offering Chinese dollars. Freezing would bring restrictions upon the use of U.S. $160-$200 million of assets now held in American banks by Chinese individuals and commercial banks. The American-British-Chinese committee, which would have in mind preventing the Japanese from raiding Chinese financial resources without giving back to China certain tangible *quid pro quo,* would define certain criteria of the legitimacy and expediency of releasing foreign exchange for use in China, especially at Shanghai. It would administer its resources in such a way as

(Continued on Page 94)



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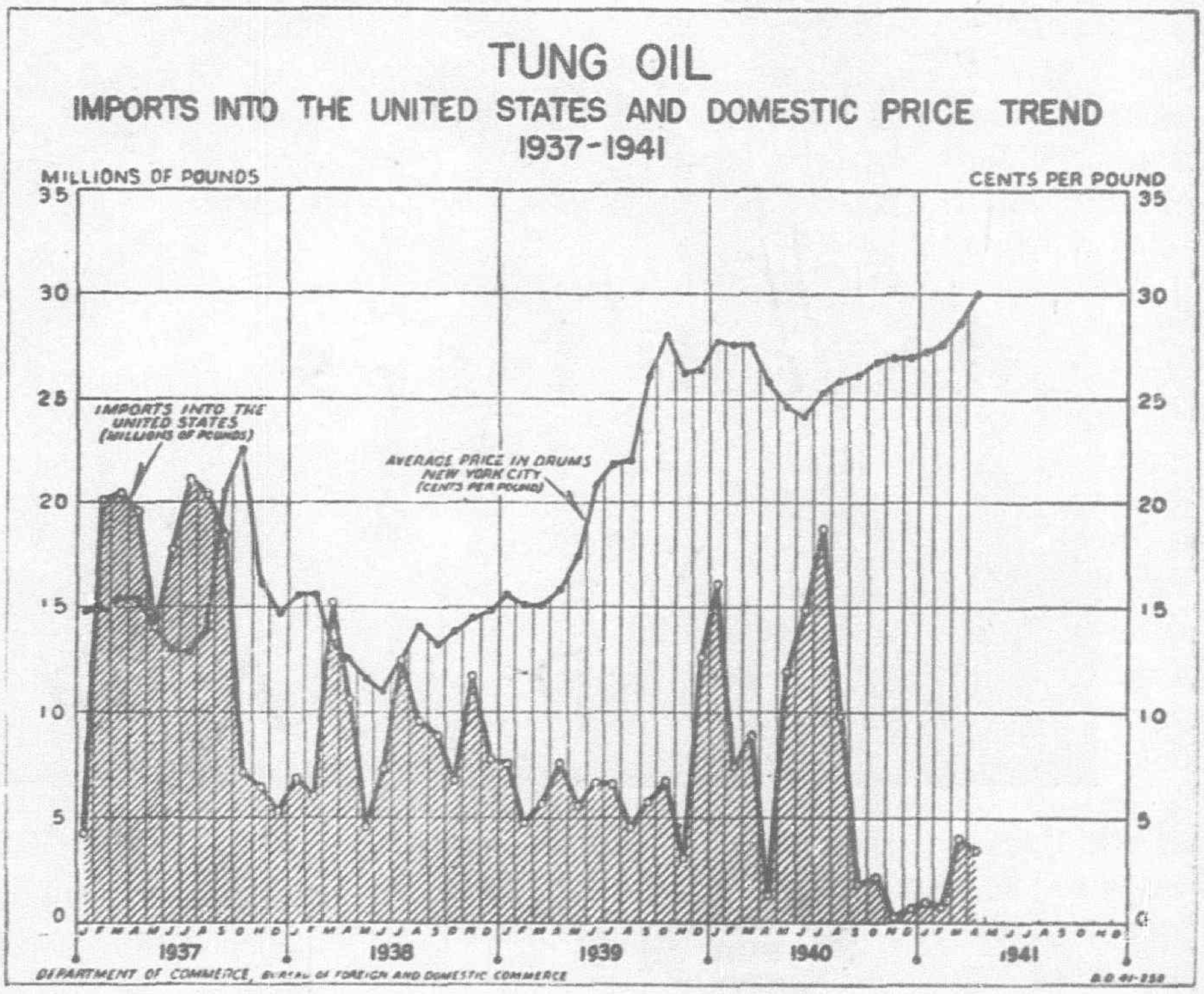
Tung Oil Production In China

LOADED high on American heavy-duty trucks on the Burma Road are drums of Chinese *tung* oil, heading for tankers and freighters in Rangoon harbor, to supply American defense and industrial needs. For *tung* oil is one of China's leading cash export products, and on it is secured the U.S.$25,000,000 credit granted by the American Government in 1940. The Chinese authorities are endeavoring to export more of the nation's production of 2,400,000 quintals of *tung* oil to foreign markets.



The export of Chinese *tung* oil began as early as 1869, when the first shipment was sent to the United States. It became an important export product from 1875 when its use in the manufacture of paint and lacquer was discovered by the Frenchman Cloez. The discovery of its use in war industry further stimulated the export of Chinese *tung* oil. Since then and until the war, exports have been constantly going upward. From 352,481 quintals in 1912, *tung* oil exports increased to 506,141 quintals in 1923, 705,944 quintals in 1930, and 867,383 quintals in 1936.

The 1937 figure reached in all-time high of 1,029,789 quintals. Most of that year's export left Chinese ports in summer. After August, the quantity decreased rapidly on account of the war around Shanghai. Exports dropped sharply, to 695,777 quintals, in 1938, when most of the shipments were sent to Hong Kong via the Canton-Hankow Railway. The fall of Canton and Hankow in October, 1938, forced Chinese *tung* oil exports to take the long and expensive overland roads via Indo-China and Burma. The export figure for 1939 showed a further decrease to 335,016 quintals and that for 1940 to 232,472 quintals.

However, it is estimated that considerable oil was smuggled out and furthermore, oil sent abroad by the National Government under barter contracts is not included in the export report. For instance, the 1939 Hong Kong customs showed the Crown Colony's imports from China that year at 500,192 quintals while the Chinese customs reported only 300,660 quintals exported to Hong Kong, a difference of about 200,000 quintals. Besides, the Hong Kong route is not the only smuggling route. Large quantities of Kwangsi and Yunnan oil are smuggled through Indo-China, Chekiang and Fukien through to the coast, and Hupeh and Anhwei oil through the front lines. The actual amount may thus be more than doubled the customs figures.

The 1937 *tung* oil export occupied first place in Chinese exports that year. The 1938 export was fourth, following cotton, tungsten, and egg products. The 1939 export was sixth, following silk, egg products, tungsten, bristles, and cotton piece goods. It took eighth place in 1940, exceeded by silk, tea, egg products, bristles, cotton piece goods, yarn, and coal.

Most of the Chinese *tung*, oil is sold in the United States which took about 70 per cent each year before the war. Hong Kong was the second with about 10 per cent.

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Since the war, however. Hong Kong has taken the lead with more than 80 per cent of the total export.

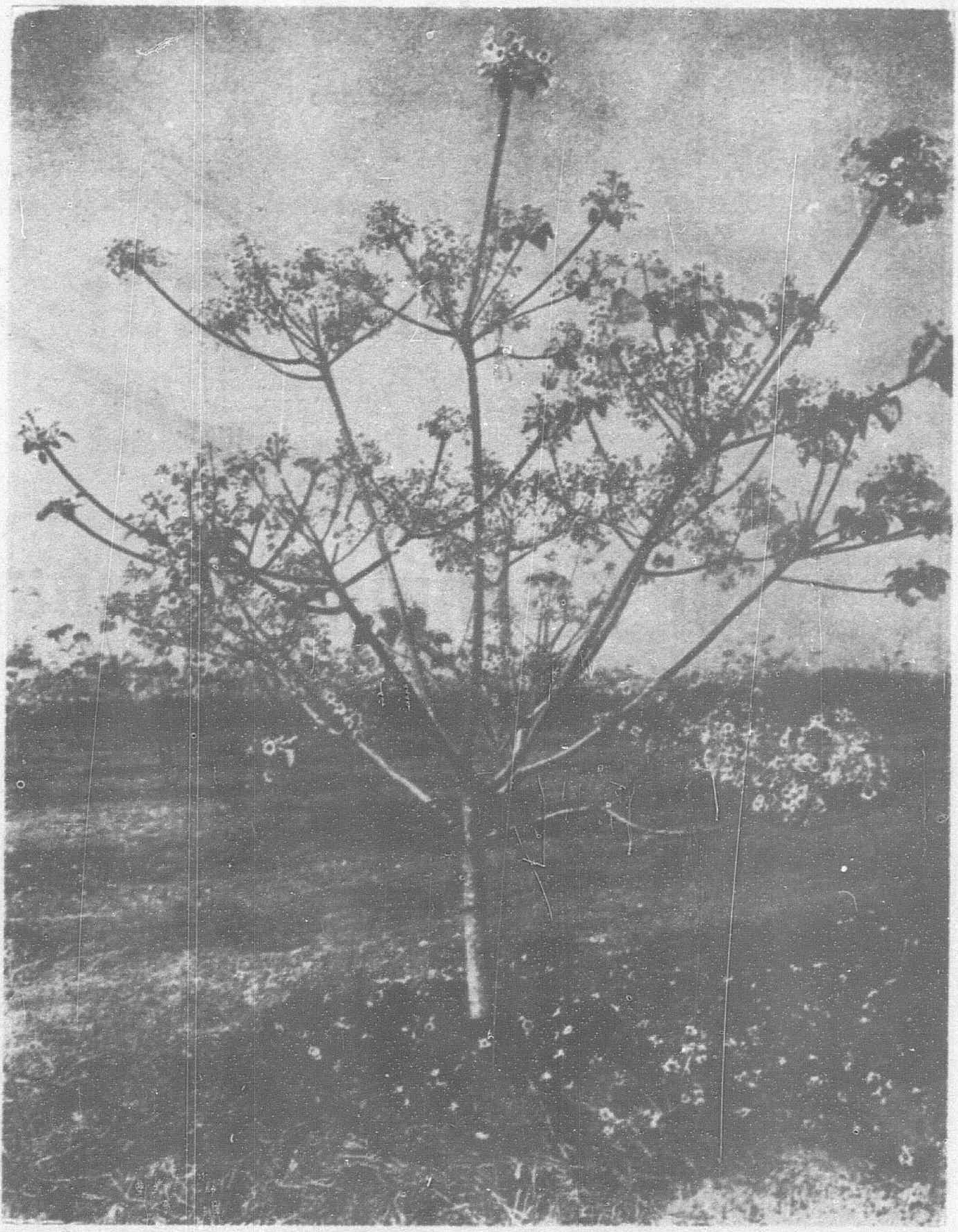
The trend of *tung* oil in 1937 changed little from prewar days. The Battle of Shanghai shifted the export to Hong Kong and Macao for transshipment instead of directly to the consumer countries. This held true for the most part of 1938. In that year, 558,100 quintals or 82.21 of the total *tung* oil exports were shipped to Hong Kong, while only 56,872 quintals or 8.17 per cent were sent directly to America.

The fall of Canton and Hankow in October, 1938, forced part of the *tung* oil exports to take to the Indo-China Road. In 1939, a total of 11,782 quintals or 3.52 per cent were exported via the French colony. However, Hong Kong still held the lead with 300,660 quintals or 89.74 per cent. Japanese occupation in 1940 of Indo-China caused another change in the route, this time to the Burma Road. Although Hong Kong still led with 153,482 quintals or 66.02 per cent, Burma took 18,240 quintals or 7.84 per cent. America's place moved forward that year with 41,799 quintals or 17.98 per cent. Of course, all shipments to Hong Kong, Indo-China, and Burma are for re-export.

For instance, the 1938 *tung* oil exports direct to the United States were only 56,872 quintals, but re-exports from Hong Kong to the States amounted to more than 373,000 quintals. In 1939, the States bought more than 270,000 quintals of which only 6,977 quintals were sent from China directly, while Hong Kong transshipped about 268,000 quintals. Although in 1940 the United States took more *tung* oil directly from China, most of the 153,482 quintals sent to Hong Kong as well as a nearly equal amount smuggled to the Crown Colony were re-exported to America.

Oils And Oilseeds

The coconut-products market during May was subjected to several highly abnormal influences. One was the cancelation of a proposed increase in trans-Pacific ocean freight rates which had been decided upon in April. The local market had advanced materially following announcement of this freight increase, but declined just as sharply when it was rescinded, since sales are normally made on the basis that buyers bear any changes in freight rates, and consequently they immediately reduced their offers in proportion to lower rates. A second influence was the passage, by the United States Congress, of a law extending export control to the Philippines. Although this law was passed by Congress on May 21, it was not signed by the President of the United States until May 28 and did not come into effect in the Philippines until



A three-year-old tung tree showing the blossoms which appear in early spring, preceding the leaves. The blossoms are white, tinged with pink.

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noon of May 29. Therefore, the law could not have any great effect on actual business during May, although the market was definitely influenced by the fact that the law had been passed and that its application was pending. The most important effect was the cancelation of various orders for shipment of Japan and China, on the assumption that such shipments would not be possible after the law came into force.

Copra arrivals during May were extremely heavy, establishing a new high for the current year and also a record for any May of recent years. The heavy arrivals principally represent copra which had previously been stored in the Provinces and sold during the current month, owing to high prices prevailing at that time. A further contributing factor is that direct shipments from outports are impossible under present conditions, so that all copra must be moved either to Manila or Cebu. Although the high prices should cause some increase in actual production, it would be incorrect to assume that this high rate of deliveries can be maintained in the future. On the contrary, a prolonged drought is almost certain to cause a fairly substantial decline in production.

At the beginning of May, copra was quoted in Manila at 9 pesos per hundred kilograms, delivered to warehouse. Prices moved upward sharply thereafter, reaching a peak of 11½ pesos on May 10. Heavy selling at this price, combined with reports of the extension of export control to the Philippines, caused a decline thereafter which was accelerated by the announcement of a reduction in freight rates, with the result that quotations at the end of the month had fallen to 7 to 7½ pesos, with little buying interest even at this price.

Despite a sharp decline during the latter part of May, the average price of 9.46 pesos for the month was the highest since July 1937. Quotations on the United States market moved upward sharply from a level of $3.50 to $4.25 per hundred pounds, on the basis of increased freight rate; however, owing to the subsequent cancelation of the proposed rate increase, prices declined to a level of $3.25 at the end of May.

The *coconut-oil* market showed a tendency corresponding to that already mentioned for copra. Prices on the United States market moved upward sharply during the first half of May, with considerable premium paid for prompt shipment. Quotations c.i.f.

Atlantic-coast ports reached a peak of 6⅝ cents for bulk coconut oil, with f.o.b. tank-car prices up ⅝ cent above this level. The market collapsed during the second half of the month, with buyers offering 4½ cents—but with no business at this level.

The copra cake and meal market continued dull throughout May, with little export business, although local deliveries were substantial.

Shipments to the United States continued difficult, owing to the inability to secure space. The situation was somewhat improved by cancelation of a scheduled increase in ocean freight rates.

Conditions in the desiccated-coconut market were favorable during May; local desiccators operated at full capacity, and the United States market absorbed all that could be shipped. Consumers in the United States were apparently endeavoring to increase their inventories, through fear of a possibble disruption of shipping facilities.

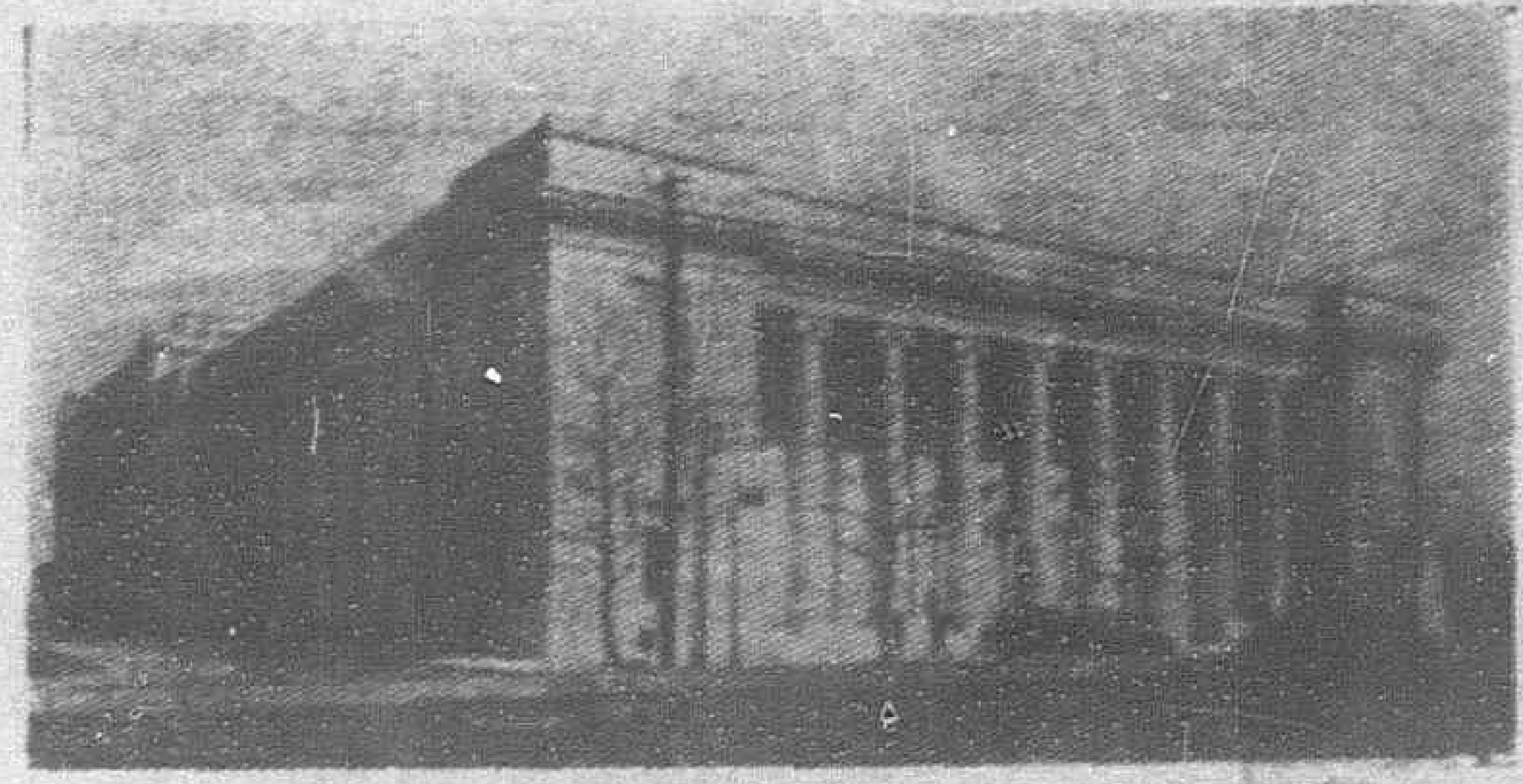
Summary statistics follow:

May copra arrivals (sacks), Manila, 634,000; Cebu, 515,000; stocks at end of month (metric tons), Manila, 33,400; Cebu, 33,100; prices of sun-dried (pesos per hundred kilograms), high, 11.50; low, 7.50. Coconut-oil stocks at end of month (metric tons), Manila, 16,000; Cebu, 5,000; prices (pesos per kilogram), high, 0.23; low, 0.15½. Copra cake and meal stocks at end of month (metric tons), Manila, 6,000; Cebu, 5,000.

May exports, according to official figures (in metric tons), copra, total 33,492, of which to the United States, 17,745; China, 305; Japan, 15,442; coconut oil, total 21,107, of which to the United States, 18,719; China 617; Japan, 1,767; other ountries, 3; copra cake and meal, total 8,338, of which to the United States, 8,336; other countries, 2; desiccated coconut, total 7,787, of which, the United States, 7,785; other countries, 2.

Tung oil production in twelve provinces of West China total 4,790,000 piculs (110 pounds to a picul), according to a survey recently completed by the National Agricultural Research Bureau. At $150 per picul, the total value is around $718,500,000.

Chinese farmers engaged in growing tung trees number 4,250,000 families, while the acreage under tung tree cultivation totals 773,000 acres. On the average of 39 trees for each mow, the total of tung trees in the twelve provinces is estimated at 183,000,000. Of this total, 49 percent are saplings, and 51 percent or 94,000,000 have reached their fruit-bearing stage.



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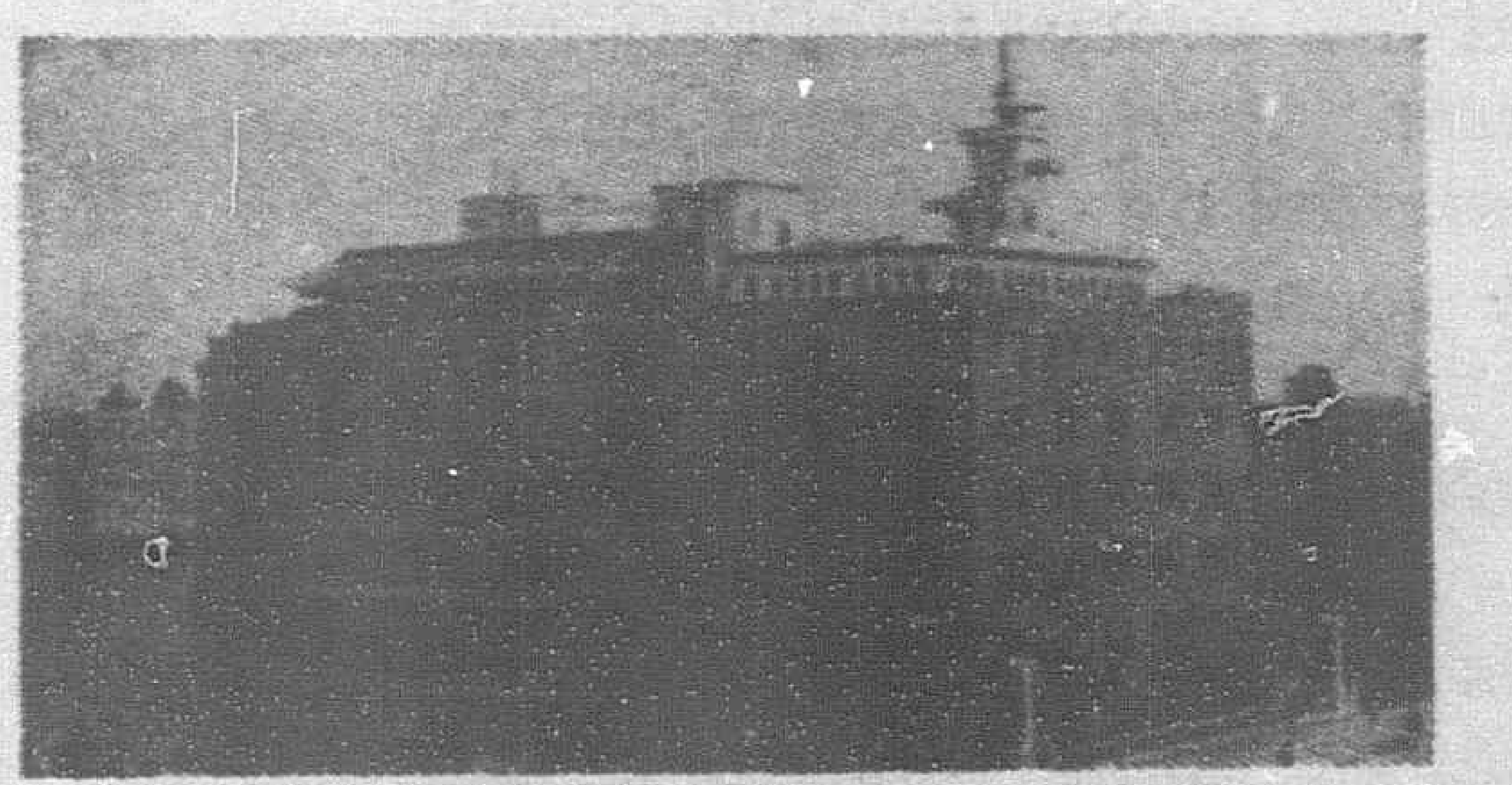

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Each tree is capable of producing 19 catties (16 ounces to a catty) of tung seeds. On this basis, the total production of tung seeds yields on the average 27 catties of tung oil. Hence the total tung oil production of 4,790,000 piculs (of 110 catties).

The survey covered 545 countries. Extensive cultivation of tung trees is reported in 284 counties while the acreage planted in the remaining 261 counties is relatively small. Ninety-three percent of the counties reported a general acreage increase in tung trees while the remaining seven percent showed a downward trend.

Tung trees begin to bear fruits in their fourth year, and their most thriving period is from the eighth to the sixteenth year. A decline in productivity begins from the seventeenth year.

The figures given in the survey are representative of all China though they did not include Anhwei and Kiangsu. The acreage of tung tree cultivation in those two provinces is small and their production of tung oil insignificant.

China's Tung Oil Production

	Acreage		Production
	Mow	Acres	(piculs)
Szechwan . . .	1,150,000	192,000	1,140,000
Hunan	650,000	108,000	810,000
Kwangsi . . .	570,000	95,000	620,000
Chekiang . . .	440,000	73,000	510,000
Hupeh	550,000	92,000	490,000
Kiangsi	420,000	70,000	350,000
Kweichow . . .	310,000	52,000	320,000
Kwangtung . . .	200,000	33,000	240,000
Fukien	150,000	25,000	110,000
Yunnan	110,000	18,000	100,000
Shensi	80,000	13,000	90,000
Honan	10,000	2,000	10,000
Total	4,640,000	773,000	4,790,000

The Future of Cotton

(Continued from Page 75)

in curbing prices. Moreover, the present price level of cotton in America, around 15½ cents. could already be considered very artificial in view of the tremendous stock of loan cotton there, and it is quite conceivable that at every stage of advance, an ever-increasing quantity of cotton would be repossessed by the farmers there and offered in the open markets.

Last time world's supplies of cotton goods were drawn chiefly from the U.K. and the continent of Europe and when the war was over the devastated countries of Europe requited some time to rehabilitate their industries before immediately coping with the accumulated demand, whereas this time lots of other countries, chiefly Japan, U.S.A., India, and even China, would be ready to provide, at least partially, if not wholly, the needed supplies.

Such are the possibilities, therefore, that we could, at least in a broad way, envisage as regards the situation in cotton after the war. There seems to be no need to fear a sudden dearth or famine for cotton and we hope the American Government will be wise enough to take a leading part in the price-stabilising process. We dread inflation. Inflation we do not want, for we have still green in our memories the bitter and distressing days it brought in Europe and everywhere 20 years ago. We equally dread the American Bureau Reports with their shock-providing uncertainties, and we wish to see all other countries growing so much more cotton than America that our markets could conveniently absorb such shocks and can dictate our own terms and policies to the U.S.A. We particularly want good-staple cottons to be grown in India and elsewhere so that all the poison of uncertainty that the American crops and the American Government have injected in the cotton trade may speedily and effectively be nullified. The fantastic price of 15½ cents ruling to-day in America is again an existing proof of the utterly artificial and unreliable manner in which the American Government have been in the habit of boosting prices in the past: prices which have been followed by crashes too sudden and too severe to be borne by the trade. To such whims of America we would not like to be subject again, and whilst happily, as shown by me in this address, the world outside has already gone a long way off in the matter of out-stripping America in production, we would certainly like to be independent of her in the matter of quality too. The burden of this responsibility devolves more upon this country than even others.

And when the years immediately following this war are over, I have every reason to believe that cotton will play its role, cotton will hold its own, and cotton will continue to lead the commodities of the world.

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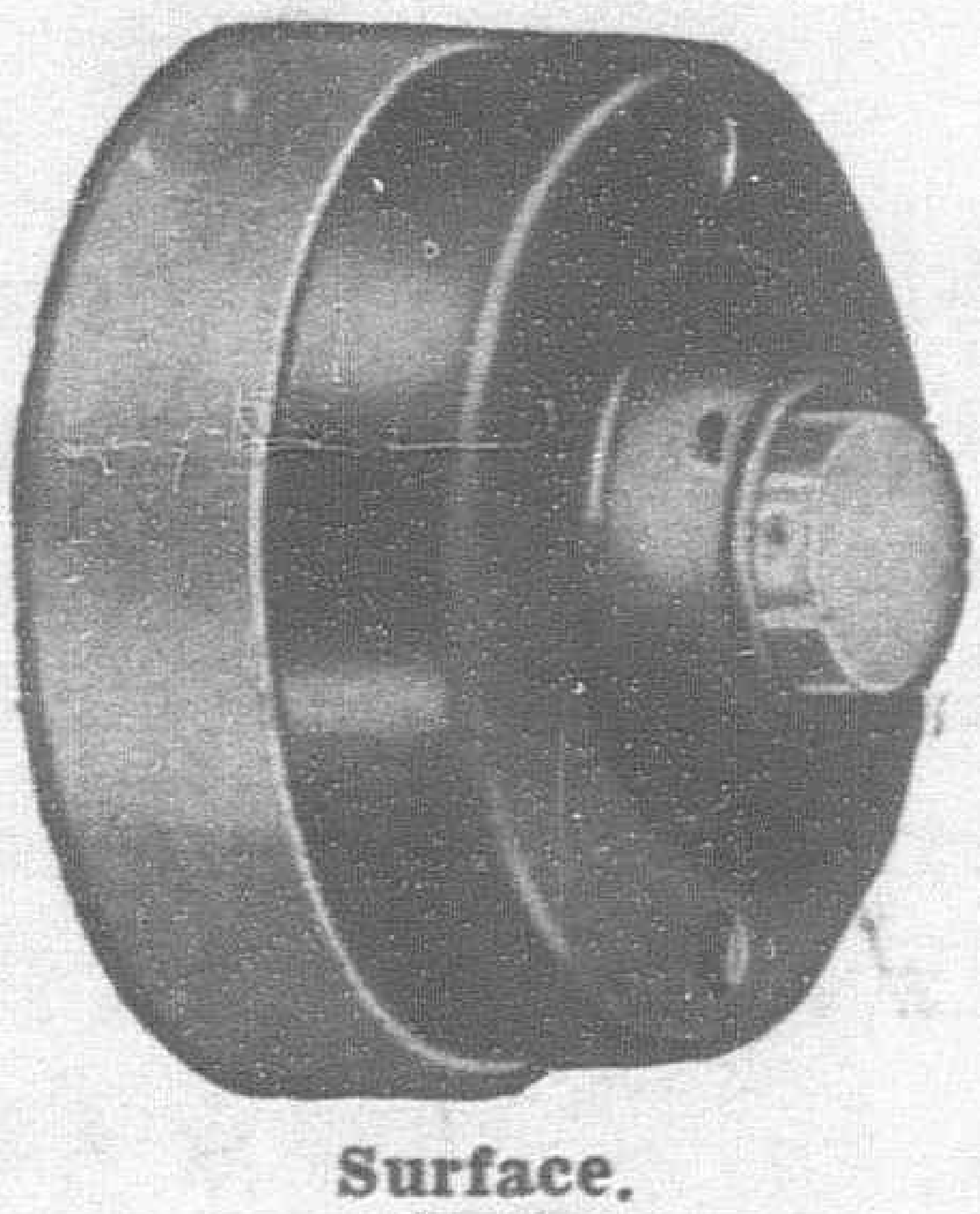

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Shanghai's Exchange Market

(Continued from Page 84)

to avoid a drastic showdown in Shanghai. It would, in any case, leave to the Japanese the initiative for positive action altering the *status quo* on the assumption that such action would produce favorable psychological effects throughout China by virtue of the fact that it would be launched against the British and Americans in Shanghai quite as much as against the Chinese. Such a development would produce a happy psychological effect upon Chinese morale in the sense that it would be concrete evidence of Jaan's open opposition to an operating Chinese-American-British entente.

Present Trends

Evidence that the Chinese Government and American banks are preparing for eventualities which would diminish the importance of Shanghai as an exchange market may be seen in (1) the decision of the National City Bank and the Chase National Bank to close American dollar checking accounts in Shanghai; (2) their decision to make a change of 1% on American dollar savings accounts; and (3) the decision of the Chinese Government to encourage exchange transactions at Chungking at unprecedentedly favorable commercial rates. These artificial developments, coupled with a hovering apprehension of freezing, have already resulted in considerable repatriation of capital to China and back into Chinese national currency.

The situation in the Far East is fluid and changeable. Therefore, considerations which are of great relevance in dealing with political or economic problems today may be only incidentally relevant tomorrow. No part of the Far East is more fluid and subject to quick and fundamental change than Shanghai itself. Emphases upon the factors bearing upon the exchange situation at Shanghai, which may have received first consideration at the end of 1940, or even those factors most conspicuously controversial in April 1941, may not possess the same importance at the time when the new Chinese-American-British Exchange Stabilization Committee actually begins to function. However, no matter what problems may demand their attention at that time, it is safe to say that they will involve more than the political and economic situation in Shanghai itself and throughout continental China. They will also include economic and political relationship through the entire Pacific area, which will be affected very intimately by changes in the European scene.

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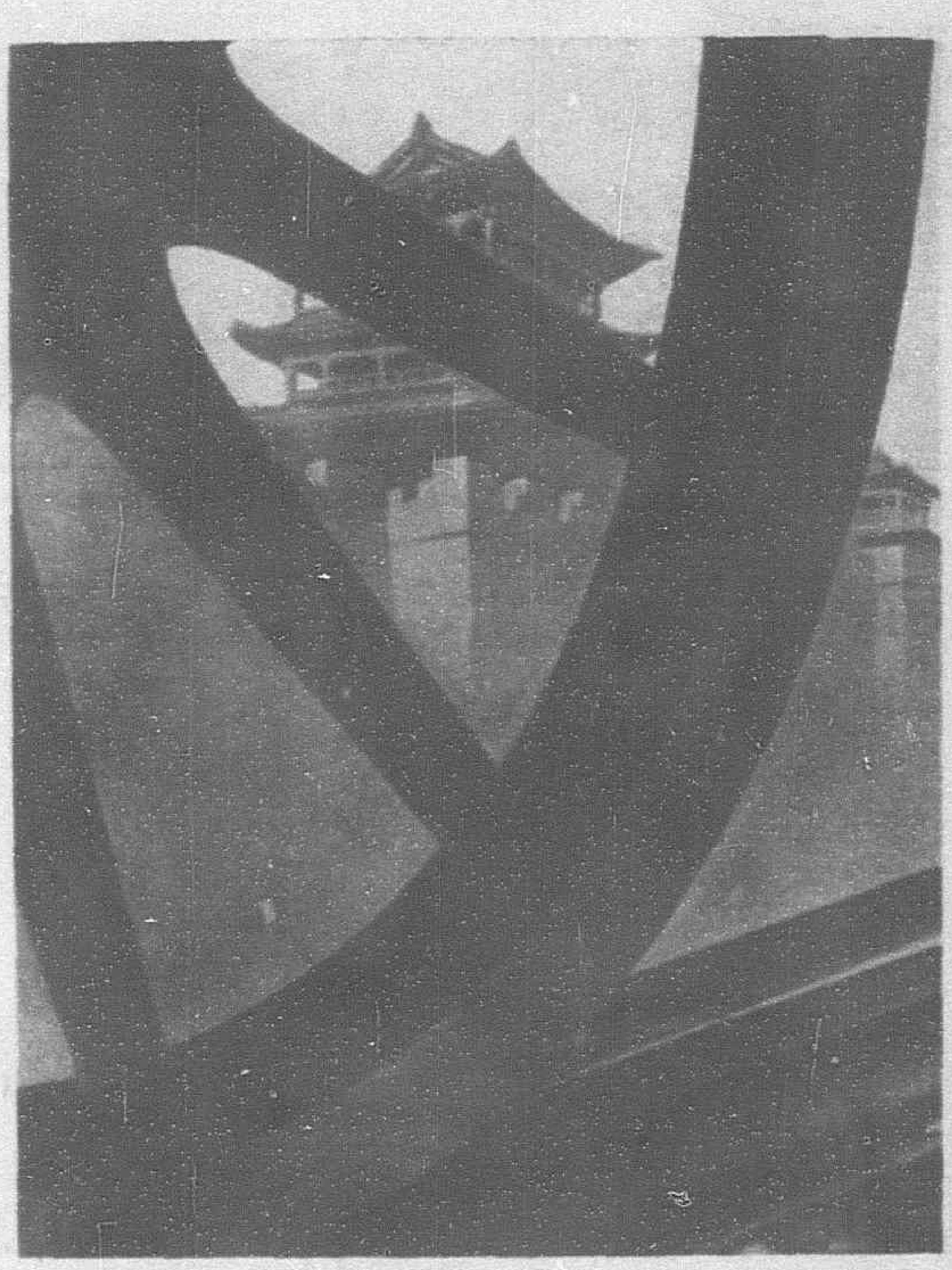

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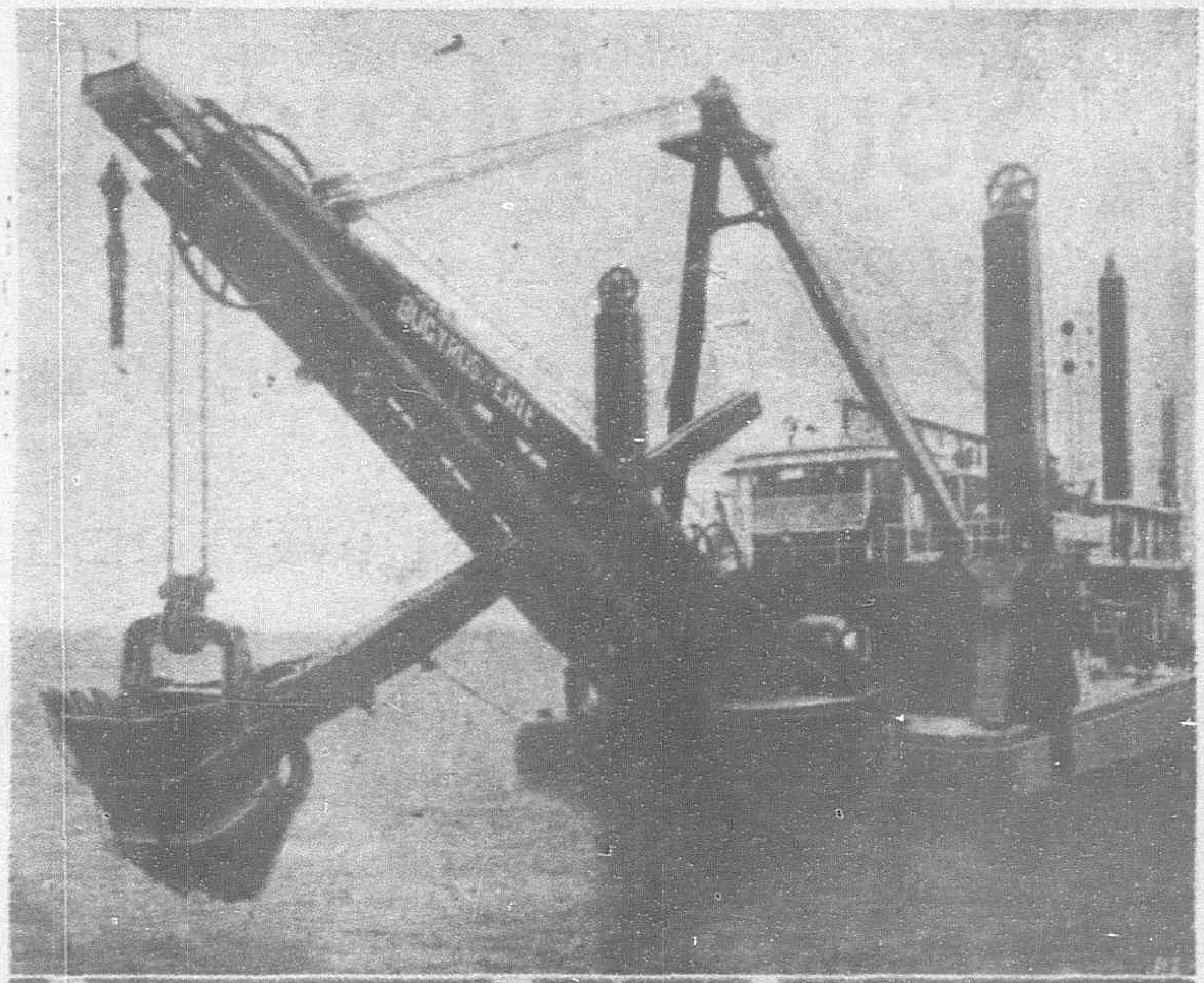

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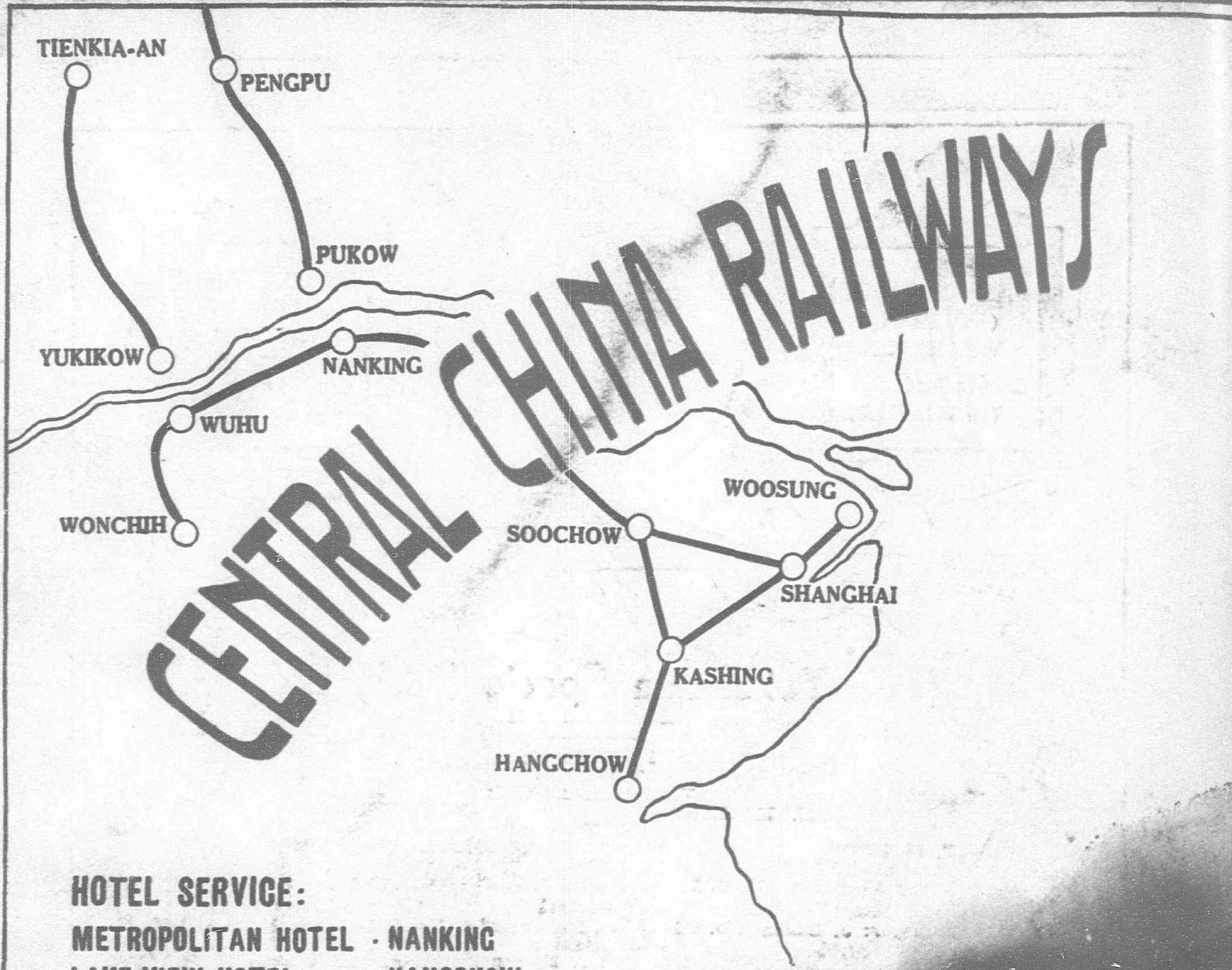

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